BRITAIN AND HER EXPORT TRADE

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Introduction to

"WHY EXPORT?"

IN this opening chapter Mr. Hill has sought to get behind the slogans which have been used in recent years in most discussions of Britain's foreign trade. His answer to the question Why Export? is in terms of the economic advantages of the division of labour, and he shows that it is primarily through the specialisation implicit in international trade that the British people have raised their standard of living in the past.

He starts with a brief picture of Britain's trade in the sixty years before 1914. In this period Britain's economy was integrated with that of the rest of the world, with Britain acting as an assembly plant for the whole world. Apart from the obvious direct benefits from this specialisation to all concerned, Britain throughout this period was making a considerable contribution to the development of every country with whom she traded through her export of capital goods and credit. The outbreak of war in 1914 drastically dislocated this system, and in the subsequent period with its ten years of war and twenty-one of uneasy peace the disintegration of the world division of labour progressed rapidly. The dislocations of the early post-war years hit primarily Britain's export trades—coal, cotton, shipbuilding. These, however, had become the staples of the whole British economy, and decay in these affected the whole of British economic life. For many years little was done. Both government and industrialists waited for the return of 1913. When it became clear that those days would never return the solutions adopted were in terms of protection and restriction and not in terms of adaptation and innovation. Britain begun to contract out of the world economy.

The second world war provided the final, but perhaps curative, shock to British trade. While British exports were cut by as much as 70 per cent. many other countries pushed forward rapidly with industrialisation, which in some cases reduced their needs for imports, and in others turned them from importers

into exporters of some of Britain's traditional export goods. Simultaneously Britain lost a large part of her overseas investments and her domestic capital suffered not only physical destruction from enemy attacks but also six years of deterioration from lack of maintenance and replacement.

Our present position in world trade is, according to Mr. Hill, dominated by two facts—our backwardness in industrial technique, and our inability to compete any longer with the United States as a provider of capital equipment and credit. The former handicap, however, is remediable and the latter is not necessarily a matter for alarm. The author argues that Britain's future prosperity depends upon the re-establishment of a world-wide division of labour, with Britain importing food and raw materials and exporting manufactures. The first step needed for this as far as Britain is concerned is a drastic rejuvenation of British industry, both in technique and in psychology, and this, in its turn, largely depends on a consciously planned re-equipment and revitalisation of our main industries.

Chapter I

WHY EXPORT?

By Walter Hill

WHEN the question, "why export?", was asked in Britain during the trade slump of the early 'thirties, the answer usually was, "to provide jobs for the unemployed, of course". When it is asked to-day, the reply is, "well, in order to pay for essential imports". In the United States the reaction produced by this question now is akin to the British between the two wars, that is "the productive capacity of the country is so vast that it cannot find a market for its full output at home and is therefore compelled to export". Earlier, still different answers were given. In short the answer to the question, "why export?" varies from country to country and from time to time. There is obviously a need for sorting out the ideas underlying the different conceptions of the function of exports.

The difference between the answers usually given in Britain before the war and now does not mean that one of them is right and the other wrong. Within their limits both are right. They merely reflect a change of circumstances and, therefore, of emphasis.

Between the last two wars Britain became unemployment conscious, first and foremost, because of the prolonged periods of heavy unemployment and, secondly, because the Ministry of Labour began to collect and to publish regularly statistics of unemployment. For almost a decade after the war of 1914-18 unemployment was exceptionally severe in the large export trades, in the coal, cotton and shipbuilding industries, for example. The difficulties of these industries were partly—but not exclusively—due to the growth of foreign competition and the tendency to protection in former importing countries. It is easy to understand, therefore, why the solution to the unemployment problem was held to be an expansion in exports. The argument was reinforced during the business slump of the early 'thirties, when exports dwindled, and when unemployment was multiplied, not only in the export trades but also in many industries engaged in serving the home market. It was then quite true that an expansion in exports would have brought a substantial relief to the unemployment problem. Because of the prevalent *laisser-faire* psychology, the idea that unemployment could be cured by a planned transfer of resources from

the export to the home trades had then still gained little ground. Within the limits of thought and fact, the answer was then quite valid.

Now, after the conclusion of another war, things seem very different. Britain must continue at all cost to import foodstuffs and the raw materials necessary to keep industry in full swing; she must meet heavy military commitments abroad, in the occupation of Germany, for example. All this has to be paid for and, since other sources of income from abroad have dwindled, it must be paid for largely by an expansion in the volume of merchandise exports, not merely to the pre-war level but to the pre-war level plus at least 75 per cent. The argument has been driven to the point at which it has become "export or die". To give expression to this need an intensive export drive has been organised by the Government to enable Britain once more to pay her way as speedily as possible. Its need was emphasised by Britain's request for a huge loan in the United States, and by the publicity given to it on both sides of the Atlantic In short, the argument that Britain must export in order to pay for imports is merely a reflection of a change in circumstances. Within the limits of immediate needs it is, of course, quite correct

This does not mean that the British public is no longer unemployment conscious. It still is. For example, the opposition of the miners to the employment of Poles in British collieries—despite the serious shortage of coal—can be partly, though not exclusively, attributed to this state of mind. It also illumines the protectionist post-war plan for the steel industry drawn up by the steelmakers' trade union at the time of the general election of 1945; the plan is rigidly protectionist, because of the professed need to provide employment for all the workers in the industry. There are, in fact, two facets to the argument. First, Britain must export to meet the bill for imports; but imports themselves must be restricted in order to keep down the bill and to provide employment at home.

While obviously true up to a point within their contexts, both answers to the question, "why export?", are superficial. They are slogans, expressing urgent needs at different times; but they do not explain the real function of British exports. It is obvious that exports provide employment; it is equally obvious that they pay for imports. Their real function in the past has been twofold. First, they have enabled Britain to introduce and practise a highly profitable division of labour with the rest of the world. Secondly, they have enabled Britain to rise to a pre-eminent position of wealth and influence. This is the real and permanent significance of British exports and the appropriate answer to the question "why export?", both yesterday and to-day.

In order to clear up some misconceptions about the meaning of

exports to Britain it is, perhaps, worth while to explain in a little more detail their past, present and future functions.

Britain an Industrial Assembly Plant

The British Isles of to-day may be regarded as a giant assembly plant built up and perfected largely during the century preceding the war of 1914-18. This assembly plant draws food and raw materials from the four corners of the world. It processes the materials and exports part of them in the form of manufactured goods. The conveyor belts of the assembly plant are represented by the British merchant navy. Risks against breakdowns and against losses in transmission are shouldered, against payment of a premium, by British insurance agencies. Motive power is provided in the form of finance by British banks and specialised financial institutions. The conveyor belts take outwards, not merely merchandise, but the human skill and enterprise that has developed the resources of the British Empire, and those of many other countries.

The export trade, therefore, is not merely a trade in merchandise. It comprises the whole complex of shipping, insurance, banking and other British activities abroad. All these activities are parts of a single whole, or, to return to the analogy, essential components of a giant assembly plant.

By concentrating on the production of mainly industrial goods Britain has been able to economise labour to great advantage. For example, by working one hour in a cotton mill or in an engineering works, John Smith is able to produce the equivalent of two or more hours worked on the land in producing wheat. In other words, he exchanges one hour's work for the equivalent of two or more hours worked on the land, not necessarily in Argentina, but in this country. This enabled him to command a bigger purchasing power than the one he would have commanded in the absence of the concentration on the manufacture of industrial products.

The division of labour has been carried far beyond the exchange of manufactured goods for food and raw materials. Experience revealed that the division of labour is equally profitable within the category of manufactured goods. In its modern context, the test of a successful division of labour is not so much whether a given commodity can be produced more advantageously at home than abroad, as whether the commodity in question can be produced in Britain more advantageously than some other commodity. In practice this has inevitably meant an increasing degree of specialisation. But, in the main, the basis of Britain's trade is still the exchange of manufactures and highly specialised services for food, raw materials and semi-finished products. The country cannot grow all its food

and, with the notable exception of coal, it is short of raw materials.

But profitable exchange has by no means been the only function of the export trade. Britain has long been in the habit of exporting goods, shipping, insurance and banking services in excess of her imports. The excess represents the investments made in opening up and developing overseas territories, in financing the rubber growing industry in the Far East and the gold-mining industry in South Africa, in providing Argentina and other countries with railways and harbours. In this sense, British exports have contributed greatly to the expanding wealth-producing capacity of the rest of the world.

This latter function of exports has been largely responsible for the growth of British influence and power in the world. The creation of great enterprises with British capital in so many countries has placed Britishers in influential and authoritative positions all over the world. Exports and the human skill that went with them have been the "buckle that fastened" the British Empire.

Exports are not something that can be treated lightly, or regarded as a mere expedient—to provide employment or foreign exchange for meeting the bill for imports. They are a vital part of Britain's economic life as it has been conceived in the past.

Trade Before 1914

A brief retrospect of British overseas trade before 1914 shows how the country has been turned into an industrial assembly plant.

The stage was set in the first half of the nineteenth century when the major remaining obstacles in the way of imports and exports were removed, when sea transport began to be fast and efficient, and when in Britain and elsewhere railways began to facilitate transport between inland centres of production and consumption and the ports. This does not mean that Britain's overseas trade was previously negligible. Far from it. But it did mean the beginning of that fruitful division of labour between Britain and the rest of the world that created the modern pattern.

Imports in 1850, for example, are an interesting reflection of the stage then reached by Britain in her economic development.

As was to be expected, food imports were then still comparatively small. Britain was largely self-sufficient, partly because her population was not much more than half the present one and partly because cheap sources of supply of staple foods had not yet been developed on a large scale. Wheat and flour imports in 1850 were around 20 million cwt., against 118 million cwt. in 1913; the intake of beef was only 135,000 cwt., compared with 9,900,000 cwt. in the later

year. Sugar was brought in to the extent of less than 7 million cwt., compared with nearly 40 million cwt. in 1913. Fresh fruit and vegetables from abroad were little known in this country a hundred years ago, but coffee, tea, spices, tobacco and wine were already being imported in substantial quantities. In 1850, imports of coffee were 454,000 cwt. —in 1913 they were 847,000 cwt. The intake of tea was multiplied sevenfold, from 50 million lbs. to 365 million lbs. In wine there was comparatively little expansion, from 9.3 million gallons to 12.3 million gallons

Much the most important part of the import trade was in a multitude of raw materials. Textile raw materials came in large quantities around the middle of the last century. This, too, is not surprising, because the textile trades, especially the cotton trade, were among the first that adopted what was then considered modern industrial practice. Imports of raw cotton, for example, were 6 million cwt. in 1850, against 19 million cwt. in 1913; by 1860 the intake was already more than 12 million cwt. The intake of raw wool was 642,000 cwt., compared with over 7 million cwt. in 1913. Metals were not yet very prominent in the import trade, with the notable exception of certain non-ferrous ones, such as copper, lead and tin. Rubber was imported to the extent of only 7,617 cwt., against 1.4 million cwt. in the later year. The significance of petroleum and its derivatives was still shrouded in darkness a hundred years ago.

British exports around the middle of the last century indicated the main industrial activities in this country at that time. The trade in textiles was much the most important, especially in cotton manufactures. Exports of cotton yarn in 1850 were 131 million lbs., against 210 million lbs. in 1913; shipments of piece goods had already reached 1,358 million linear yards, against some 7,000 million yards in the later year. In both years the cotton trade was at the head of the list of exports. Exports of woollen tissues rose from some 150 million yards to 168 million yards. Shipments of coal were still small, some 3 million tons, against 76 million tons. The quantity of iron and steel sent abroad was some 780,000 tons, compared with about 5 million tons in 1913. The trade in machinery and in the modern range of metal manufactures was still in its early stages. The production of steel—which made possible the development of the modern metal industries—had barely begun its startling expansion.

The geographical aspect of the integration of the British with the world economy is equally interesting.

The distribution of Britain's total trade with British and foreign countries remained surprisingly stable. During the five years from 1855 to 1859, 23.5 per cent. of imports (by value) came from British countries and 76.5 per cent. from foreign countries. Fifty years

later, during the four years from 1905 to 1908, the proportions were 23.1 per cent. and 76.9 per cent. respectively.

Again, during 1855-59, Britain sent 28.4 per cent. of her total exports to British countries and 71.6 per cent. to foreign countries; during 1905-08 the proportions were 29.4 per cent. and 70.6 per cent. respectively.

Throughout this period, British trade with foreign countries was much more important, in value, than trade with the Empire. Imports from the Empire were under and exports just over a quarter of Britain's total trade.

This stability of the geographical distribution of trade between Britain, the Empire and the rest of the world shows that the division of labour was world-wide rather than concentrated within a group of countries. The multilateral system of trade and finance then operated under the leadership of Britain meant that Britain drew her imports from the cheapest sources of supply and sent her goods and her capital without deliberate discrimination to the four corners of the world.

Trade between the United Kingdom and some countries showed remarkable stability throughout this period, trade with other countries changed with economic conditions and policy.

Around the middle of the nineteenth century the division of labour was most highly developed between Britain and the United States. During the five years, 1854-59, Britain imported 19.4 per cent. of her total imports from the United States; fifty years later, in 1905-08, the percentage was almost unchanged at 20.9 per cent. Throughout this period Britain thus drew as much as one-fifth of her imports from the United States. The story of British exports to the United States is very different. During 1854-59 Britain consigned 16.4 per cent. of the exports across the North Atlantic; the proportion declined steadily to only 7.0 per cent. in 1905-08. The relative decline in British exports to the United States is a measure of the decline of British capital investments in that country, of its industrialisation and, perhaps most important of all, of its protectionist policy.

Next to the United States, France and Germany were the countries most closely linked to Britain by trade. During 1854-59, 7.2 per cent. of British imports came from the one and 7.0 per cent. from the other. Fifty years later, during 1905-08, the proportions were 8.6 per cent. and 6.2 per cent. respectively. Of British exports during 1854-59 10.2 per cent. went to Germany and 4.8 per cent. to France; fifty years later, during 1905-08, the proportions were 9.1 per cent. and 5.5 per cent. respectively. Russia was an important source of imports, contributing 6.0 per cent. to the total during 1854-59 and 5.1 per cent. during 1905-08, but Britain only consigned 2.0 per cent. of her exports

to that country in the earlier and 2.6 per cent. in the later period. Trade with other European countries, with Holland, Belgium and Italy was also important, taking into account the size of their populations. Indeed, the British economy was then closely linked to that of Continental Europe, in spite of the protectionist policy pursued by the majority of them.

Trade with Latin America was still comparatively small around 1850. British imports from Argentina, Brazil and Chile, during 1854-59 then represented only 3.6 per cent. of total imports, the proportion of British exports to them at 5.6 per cent. was somewhat larger. Fifty years later they had gained in relative importance. During 1905-08 they contributed 7.1 per cent. to Britain's total imports, and they took 8.1 per cent. of her exports. One explanation of the relative growth of trade with Latin America is the development of those countries with British capital, that is, the production of goods, especially food, that Britain needed, and the construction of a system of railways that enabled these products to be carried to the ports.

Among foreign countries in the Far East, China had long been an important source of British imports. During 1854-59 that country contributed as much as 5.3 per cent. to Britain's total imports (Japan was then still living virtually in isolation). But only 1.7 per cent. of British exports were consigned to China. Fifty years later the position was different. Britain only obtained 0.5 per cent. of her imports from China (though this proportion is somewhat misleading because it excludes shipments from Hong Kong), but sent 3.2 per cent. of her exports direct to that country.

Throughout this period India was the most important single source of supply and the chief market in the Empire. During 1854-59, that country supplied 9.3 per cent. of British imports, during 1905-08 the proportion was 6.1 per cent. British India's relative position as a market remained remarkably stable; during 1854-59, 12.1 per cent. of British exports were consigned to India, compared with 12.8 per cent. during 1905-08. Australia and New Zealand became increasingly important as a source of supply—of foodstuffs and raw materials. During 1854-59, Britain derived only 3.3 per cent. of her imports from these two Dominions, by 1905-08 the proportion had grown to 7.5 per cent. The story of exports is different. Around the middle of the nineteenth century Britain consigned no less than 8.4 per cent. of her exports to the two countries; during 1905-08 the proportion, at 7.6 per cent., was slightly smaller. Part of the comparatively heavy exports represented capital goods sent out—some of them on credit—for the development of transport and agriculture which made possible the subsequent expansion of the production and exports of the Dominions. Trade with Canada was developed at an early stage; British imports from

Canada during 1854-59 represented 3.3 per cent. of the total and exports 3.1 per cent. Fifty years later, the proportion of imports had risen to 4.6 per cent. and that of exports to 3.8 per cent.

The changing pattern of British trade by commodities and by countries shows how the British economy has been integrated with those of other countries, but it does not fully reveal the extent of this integration. This is brought out by the expansion in total trade.

During the five years 1855-59, total British imports averaged £169 million, equivalent to £6 0s 3d. per head of the population; during 1905-08, they averaged £603 million, or £13 14s. 9d. per head of the population; in 1913 imports were £769 million, or £16 16s. 10d. per head.

Exports increased less rapidly. In the earlier years, exports of British goods were £116 million (£4 2s. 4d. per head); during 1905-08 they were £368 million (£8 7s. 11d. per head); in 1913 they were £525 million (£11 10s. 2d. per head). Re-exports, that is the export of imported goods, were £23 million (13s. 6d. per head) during 1855-59, they rose to £84 million (£1 18s. 1d. per head during 1905-08), and were as high as £110 million in 1913. The growth of these re-exports is the story of Britain's growth as a distributing centre for many raw materials and foods and of the successful organisation of the great international commodity markets in this country.

Values, of course, are a misleading yardstick in measuring changes in trade, for they disguise changes in the average prices of imports and exports. An attempt was made by *The Economist* to overcome this difficulty by eliminating price changes from the trade figures. Although the figures have only been re-calculated back to 1880, the results are interesting. Between 1880 and 1908, the declared value of total imports rose by 74 per cent., but the volume of imports advanced by as much as 93 per cent. Again, the declared value of exports of British goods increased by 69 per cent., but its volume rose by 83 per cent.

The expansion in the volume of trade has thus exceeded its growth in value. In other words, average prices in 1908 were lower than in 1880. A feature of these figures is that the fall in the average price of imports has been bigger than the decline in the average price of exports. This means that, during the period from 1880 to 1908, the "terms of trade" have changed in Britain's favour. In other words, Britain was getting more imports of food and materials per unit of exports of manufactured goods in 1913 than in 1880. This illustrates forcefully one of the advantages of the policy of the division of labour adopted by Britain in the nineteenth century.

These advantages are brought to light even more fully by an examination of the growth and ramifications of specific industries.

The iron and steel industry is a good example. During its early stages, this industry, as so many others, relied on domestic raw materials. As it grew it began to import raw materials and semi-finished products in increasing quantities, thus permitting the expansion in the production of finished products. In 1913, the intake was 2,231,000 tons valued at £7.1 a ton; exports were then 4,969,000 tons but their average value was £11.1 a ton. Imports of iron ore (mainly from Spain) were then 7,230,000 tons, against a domestic output of 15,997,000 tons of chiefly low-grade qualities. Pig-iron, crude steel and semi-finished steel products came largely from Germany, Belgium, Sweden and the United States in that order. Finished products were sent to almost every country in the world. In 1913 British Empire countries took 2,309,000 tons, and foreign countries 2,660,000 tons.

The growth of Britain's merchant navy was an integral part of the expansion in trade based on the principle of the division of labour. The volume of shipping on the United Kingdom Register increased from 4,248,000 net tons in 1854 to 11,541,000 net tons in 1908. The figures for the British Empire as a whole were 5,473,000 net tons in the earlier and 13,263,000 net tons in the later year. The fact that shipping tonnage did not increase in proportion to the expansion in the volume of trade is a reflection of the increased speed and efficiency of ships. In 1913, no less than 44 per cent. of the world's shipping was British. This means that the British merchant navy was not merely large enough to carry British trade, but was able to carry a substantial proportion of the goods of other countries. Shipping services thus became an important export industry, a source of foreign exchange.

Simultaneously, all the other activities ancillary to foreign trade, such as banking, insurance, the international commodity markets, developed into important sources of so-called "invisible" exports. The importance of these ancillary services is discussed in more detail in the next chapter on the balance of payments.

This brief summary of the story of the integration of the British economy with that of the rest of the world brings out the real significance to Britain of her foreign trade. What conclusions can be drawn from it?

First, Britain was still largely self-sufficient in food around the middle of the last century. Among her industries, the textile trades had already reached an advanced stage of development. The most important single import consisted of textile raw materials; manufactured textiles were then the chief export. The metal industries were still small scale ones.

During the second part of the century and up to 1913, Britain's

population almost doubled; hence the country became increasingly dependent on imports of staple foods—grains, sugar, meat. Many of the overseas sources of supply were developed by British enterprise, with British capital. Food could be produced cheaply abroad and, with the development of modern shipping and rail transport, could be carried to this country at a total cost that compared favourably with the prices at which British agriculture could deliver corresponding products. The growth in food imports—in 1913 more than half Britain's consumption already consisted of imported food—did not involve a corresponding reduction in domestic output; but it meant that an increasing proportion of the population could be employed in industrial, commercial and other more remunerative occupations, and a consequent increase in the sum total of the production of goods and services. This concentration on industrial and commercial occupations played an essential part in the growth of Britain's wealth, and in the improvement of living standards during the period under consideration.

Secondly, British industry itself made enormous progress during this period, both in technique and in output. The textile industries—dominating the industrial scene in 1850—continued to expand rapidly right up to 1913. But the most important development was probably the improvement in the technique of steel production—and the output of steel rose from a mere 40,000 tons in 1850 to some 7½ million tons in 1913—and the growth of the engineering and other steel-using industries. Cotton was still heading the list of export trades in 1913 and coal—a raw material—had achieved second place. But British steel and engineering products were the ingredients in the industrialization of many overseas territories. They were needed to give Britain its merchant navy which then exceeded that of the rest of the world put together and carried the goods of Britain as well as a large proportion of those of other countries. They were needed for the development of railway transport and port facilities in many countries, for the exploitation of gold, silver and base metal deposits, and for the creation of industries in the Empire and elsewhere.

Thirdly, before the war of 1914-18 British industrial products were leading over a wide range in both quality and price. This advantage was derived from the fact that this country was first in the field, as a mnaufacturer and exporter. It was fortified by the massive import of cheap staple foods. The absence of protection kept industrialists on their toes; their worldwide contacts impelled them continuously to measure their own achievements with those of competing countries, notably the United States and Germany. In 1913 Britain exported no less than a third of her total output of manufactured goods.

Britain did not develop her export trade in the nineteenth century

merely in order to pay for the import of food and materials she could not physically produce at home. Nor did the country export merely to provide employment. The growth of British exports was, above all, a reflection of a highly profitable division of labour with other countries, and one which was responsible, in no small measure, for the influence and prestige achieved by the country during the nineteenth and early twentieth centuries.

The Challenge to Britain

During the period from 1914 to 1945, with its two wars and twenty-one years of uneasy peace, the economic system built up by Britain under her leadership encountered a formidable challenge. The two wars were two attempts to reduce the position of this country by force of arms, and each time it rose to the occasion. But the challenge during the inter-war period was no less dangerous; it was not so much a calculated attempt to undermine Britain's position in the world as a challenge to Britain's ability to adapt herself to changes originating in other countries.

The growing industrialisation of other countries—especially of the United States and Germany—reduced Britain's technical lead over the rest of the world even before the war of 1914-18. But the effects of this competition did not make themselves felt, largely because of the rapid expansion of world trade as a whole. The expansion of Britain's own trade continued almost right up to the outbreak of war in 1914. In the course of hostilities and during their aftermath, the British economy was inevitably distorted. The smooth division of labour with the rest of the world was interrupted. Former customers of Britain began to lay the basis of new industries. The United States, not directly involved in the war during its early stages, continued to forge ahead rapidly with its industrialization, under the protection of a high tariff. Britain regarded the war essentially as an interruption of normalcy; at the end of it the country thought essentially in terms of getting back to 1913; it was looking backwards rather than forwards. This psychology found expression in the decision of the Government in 1925 to return to the gold standard at pre-war parities. The habit of thinking and of acting in terms of 1913 persisted right up to the economic slump of the early 'thirties.

During this initial period trade policy remained substantially unchanged, that is Britain continued to import (with a few exceptions) everything that could be marketed here. In the main these imports still consisted of foodstuffs and raw materials, though finished goods were also marketed in increasing volume.

The difficulty was on the side of exports. Coal exports, for example, fell from 73 million tons in 1913 to 60 million tons in 1929 (the best

year of the 'twenties). Shipments of cotton piece-goods declined from 7,150 million (linear) yards to 3,824 million Wool textiles did not suffer correspondingly, and by 1929 exports of iron and steel had recovered almost to pre-war level; they were 4,380,000 tons, against 4,969,000 tons in 1913. The British shipbuilding industry was unable to supply as large a proportion of world demand as formerly, and, with a few exceptions such as the rayon industry and television, Britain did not succeed in establishing pre-eminence in new industries, such as the manufacture of motor cars, aircraft, modern household equipment, and films, to name only a few.

The result of the fall in exports of coal, cotton textiles and ships was a prolonged period of heavy unemployment in these industries. (It should be remembered that the year 1929 was by no means typical of the 'twenties, but was one of prosperity and low unemployment). The consequence of failure to establish leadership, or at least a commanding position, in important new industries was a weakening of Britain's influence and prestige in the world. The experience on the export markets of both old-established and new industries vividly illustrates the psychology (and material difficulties) of Britain after the war of 1914-18.

First, the fall in the export of cotton textiles was due, not so much to a decline in the efficiency of the industry in this country as to the growth of production in former importing countries, notably India and China. But it was aggravated by the growth of Japanese competition. The remedy was not to wait for a restoration of the pre-1914 volume of trade, but to adjust the industry, both its size and the nature of its products, to the new conditions. This was not done. Thus, the industry did not only suffer from prolonged unemployment, but it could only export what it did by paying comparatively low wages.

Secondly, the case of coal is different in the sense that, although it suffered from growing competition from Germany and Poland, there was no fall in world import demand corresponding to that in cotton. The difficulties of the coal-mining industry during the period under consideration arose largely from the fact that its technique was virtually the same as in the nineteenth century, and that the adoption of modern methods by other countries meant that Britain was seriously lagging behind in output per manshift. The persistently low output per manshift meant, in turn, that the industry could only maintain itself in a competitive position by paying low wages. As a result, it encountered a series of labour difficulties, culminating in the strike of 1926. The failure to bring the technical methods of the industry up to the limits of knowledge again illustrates the "back to 1913" psychology. Had the industry been modernised, it could have brought wage rates more into line with those paid in

progressive ones. It would be very wrong to lay the blame entirely at the door of the employers; the coal-miners themselves vigorously opposed the introduction of labour-saving methods and machinery, for fear of being unemployed. This resistance to a change illustrates yet another of the prevalent characteristics, the absence of adequate labour mobility.

Thirdly, the failure to expand noticeable in certain old-established industries, such as steel, and the comparatively poor show made by a number of new ones discloses another malady that has been sapping the vitality of British industry and its ability to command respect and purchasers on the export markets. This is the resistance to the adoption of modern methods of production, especially those that have come to be known as mass-production. Trade unions resisted technical progress for fear of unemployment; industrialists were more anxious to protect the revenue-producing capacity of existing capital equipment than to risk new capital in the provision of new and more productive tools.

In short, Britain's adaptability to changing external conditions was seriously weakened during this period. Instead of making an effort after the war of 1914-18 to catch up with changes in circumstances and technique, Britain was waiting for a "return to 1913".

The trade slump of the early 'thirties did not awake the country to the need for positive action. On the contrary, it precipitated protective measures, a reflection of the prevailing mentality of defence. The moderate tariff introduced in 1932 was merely a sign of the times and, in the general race for self-protection by way of self-sufficiency, the Ottawa Agreements, and the bilateral trade agreements with other countries—designed to ensure a market for British goods—seemed plausible enough at the time. The main burden of any criticism cannot be directed so much against these arrangements as against the spirit in which they were made. They were regarded largely as a means for carrying on as before instead of as an opportunity for the modernisation of industrial practice. Indeed, one of the most significant features of the 'thirties is the connivance of the Government in the resistance to industrial change. The Coal Act of 1930 gave the industry power to fix prices and production to give it a chance to rationalise its methods. But it did nothing of the kind. And the coal-mining industry is not the only example.

As a result of this lack of adaptability to change, the integration of the British economy with that of other countries did not make further progress; on the contrary, Britain moved away from this policy between the two wars. The proportion of Britain's output of manufactured goods that was sent abroad declined from about a third in 1913 to a seventh in 1938.

Despite Britain's recovery after the slump, when the total volume of industrial production reached a higher level than ever before, exports remained disappointing. A comparison between 1929 and 1937 shows that coal exports shrunk further, shipments of cotton textiles continued to fall, the volume of iron and steel consigned to other countries was nearly halved (from 4,380,000 tons to 2,609,000), and other industries failed to fill the gap. Between 1924 and 1937, the volume (as distinct from the value) of retained imports rose by 19 per cent., while the volume of British exports fell by 14 per cent.

Fortunately for Britain, the terms of trade continued to change in her favour. During the slump of the early 'thirties, the average price of imports fell more sharply than that of exports. This meant that the standard of living of those who remained in employment actually rose during this period. Even over a longer period, from 1924 to 1937, the fall in prices averaged 29 per cent. for imports and 24 per cent. for exports. As will be shown in the next chapter, the increase in imports obtained per unit of exports reduced the need for exports as a means of payment for imports But the reduction in the value of exports relative to imports reached a stage in the later 'thirties where Britain began to draw upon the investments accumulated in other countries from export surpluses of earlier periods.

There were some significant geographical changes in Britain's trade between 1913 and 1937. Total imports from the Empire rose from £192 million in 1913 to £405 million in 1937; the intake from other countries increased from £577 million to £622 million. In other words, Britain's imports from the Empire, expressed as a proportion of total British imports, rose from 25 per cent to 40 per cent. between 1913 and 1937, while imports from foreign countries fell from 75 per cent. to 60 per cent. Again, British exports to the Empire advanced in value from £195 million in 1913 to £252 million in 1937; exports to other countries actually fell from £330 million in 1913 to £269 million in 1937. In terms of proportionate changes, exports to the Empire rose from 37 per cent. in 1913 to 48 per cent. in 1937, while shipments to foreign countries fell from 63 per cent. to 52 per cent. In view of the comparative stability of these proportions from the middle of the nineteenth century to the outbreak of the war of 1914-18, this shift in trade from foreign to Empire countries is remarkable. In part, it was a reflection of deliberate policy, that is the adoption of a system of Empire preferences; in part it reflects the protectionist measures taken by foreign countries. The fall in British exports to foreign countries, however, is not altogether unconnected with the failure of certain British industries either to gain a substantial foothold on foreign markets—as, for example,

the motor industry—or to keep in step with modern technical developments.

In the trade with foreign countries, Europe continued to play an important part. In 1937, Britain drew 34 per cent. of her imports from Continental countries and their dependencies and exported to them 32 per cent of her total shipments. A third of Britain's trade was thus with Europe. Merchandise trade with the United States remained largely a one-way traffic. In 1913, Britain imported from the United States goods valued at £142 million and exported to her £29 million, in 1937 imports from, and exports to, the United States were £106 million and £31 million respectively.

Some of the activities ancillary to trade diminished between 1913 and 1937. Britain's merchant navy comprised 18.2 million gross tons in 1913 and 17.4 million gross tons in 1937; expressed as a proportion of the world's total merchant shipping tonnage, it declined from 44 per cent to 28 per cent. during this period.

The war of 1914-18 certainly shook Britain's position in the world; but more serious was the lack of ability to adapt the country's economy to changing circumstances—especially technical progress—between the two wars. Psychologically, the country continued to live in former days; and its reaction to growing competition in the home and export markets was negative rather than positive; that is, it sought salvation in all sorts of protective devices. Expansion had been turned into restriction; enterprise into unenterprise. And the blame for this cannot be placed upon any one factor, or upon any one section of the community. Britain continued to live in the nineteenth century, when the rest of the world had entered the twentieth.

Nevertheless, the damage should not be exaggerated. Despite the fact that a number of important British industries had fallen behind in technical advance and productivity and that exports were hardly enough in the 'thirties to meet the bill for imports, the country's position was still immensely strong. In the main, Britain had successfully retained her tremendous advantage of being able to buy food and materials at least as cheaply or more cheaply than other countries; this advantage has carried the country through a period when its conversion (that is, manufacturing) costs were rising relative to those of other countries. And it had preserved intact its foreign investments and the strength and influence flowing from them. Such a period of hesitancy cannot last indefinitely. Even before the last war it was clear that Britain must either go forward again or suffer the fate of old age.

The War of 1939-45

The effect of the last war upon Britain's delicate economy was even more disastrous than that of the previous one. Again, many of the

links with other countries snapped or were seriously weakened.

To begin with the country was compelled to adapt its economy to the requirements of total war, irrespective of the consequences. Its imports were dictated by needs, geography, and available shipping tonnage rather than cost. Its exports had to be cut to ribbons. The volume (as distinct from the value) of imports of goods other than munitions was reduced by 38 per cent. between 1938 and 1945; that of exports was cut by as much as 71 per cent. between 1938 and 1943.

Secondly, other countries tended to replace British goods with their own manufactures or with those of countries—such as the United States—that were still in a position to export. Many of Britain's former customers have made plans for industrialisation whose realisation would not necessarily involve a reduction in total imports from this country but in the intake of specific commodities, such as cotton textiles after the war of 1914-18

Thirdly, Britain has had little opportunity to develop new peace-time products between 1939 and 1945. By contrast, the United States only entered the war in December, 1941, and was able, even during the conflict, to maintain activities that will assist her greatly in peace. For example, the division of labour adopted between the United States and Britain during the war meant that the United States concentrated on the production of transport aircraft, while Britain concentrated on that of fighters and bombers. Hence, America's present lead in the production of civilian aircraft and Britain's need to purchase a number of "Constellations" for the purpose of inaugurating a trans-Atlantic service in 1946. Again, while Britain concentrated on the production of warships, America's shipyards turned out a prodigious tonnage of merchant ships; America now possesses a merchant navy greatly in excess of Britain's that has been reduced by a third in tonnage through war losses. The United States was also able to make rapid headway in the production of chemicals, especially those derived from oil.

British industry, on the contrary, has tended to lose ground because of the need to defer all but essential repairs and replacements. Britain has thus been living on its stocks of capital. It is true that the Government spent large sums on plant and machinery during the war; but it remains to be seen how much of this will be of use in peace.

Further, Britain has suffered substantial physical damage and destruction, mainly during air raids. The repair of this damage will be a heavy drain on the man-power and physical resources of the country.

Fourthly, Britain's net foreign assets, accumulated mainly before 1914, have been seriously depleted since 1939. By the end of June, 1945, the amount of external disinvestment amounted to £4,198 million, equivalent, roughly, to the nominal value of Britain's foreign

investments in 1939. External assets had been realised to the extent of £1,118 million; of the remainder the greater part represents an increase in Britain's external liabilities, held in the form of sterling balances. At the end of 1945 the sum total of losses of foreign assets and liabilities incurred since 1939 amounted to no less than £4,628 million.

The loss of foreign assets and the piling up of debts abroad have obviously changed Britain's position in relation to the rest of the world. The immediate consequence is a loss of income from overseas investments; the long-term effect may be more serious in that a permanent reduction in overseas trade assets must inevitably diminish Britain's influence and power in the world.

In a White Paper (Cmd. 6707), presented at Washington during the negotiations for an American credit, Britain's war losses, up to the end of June, 1945, were estimated as follows.—

	£1,000,000
Physical destruction—on land	1,500
" " —shipping, including cargoes ...	700
Internal disinvestment (under-maintenance of capital equipment)	900
External disinvestment (sale of overseas assets and debts incurred)	4,200
Total loss	7,300

Britain's pre-war capital wealth has been estimated at some £30,000 million at 1945 prices; war-time capital losses, at £7,300 million, are therefore equivalent to a quarter of the pre-war capital wealth of the country.

Finally, the United States has increased her ascendency over Britain in the matter of exports and in the capacity to invest capital abroad. While Britain's task will be to restore equilibrium in her foreign trade, that is, to bring exports up to the point at which they pay for imports and other commitments, the United States is in a position even now to export more than she imports. This means that the United States is now in a position to assume the rôle so successfully played by Britain up to 1914 and even up to the trade slump of the early 'thirties, that is, that of a universal provider of capital goods. The displacement of Britain by the United States in this rôle will inevitably confer upon that country the opportunity to secure something like the power and influence hitherto exercised by Britain. The capacity of the United States to run an export surplus, that is to lend abroad, is enormous. Early in 1946, in the midst of the process of military and industrial demobilisation, the volume of industrial pro-

duction across the Atlantic was some 60 per cent. above the average of five pre-war years. The country is export conscious, for the belief is widely held that productive capacity is excessive in relation to domestic needs, and that heavy exports are a pre-condition of the achievement and maintenance of full employment. All this should not be taken to mean that America's power to export is regrettable; if she uses it wisely the world is likely to benefit from her export surplus. But it nevertheless means a diminution of Britain's relative position in the world.

The measure of success already achieved in the restoration of British exports since the end of the war should not be mistaken for a long stride towards lasting recovery. The expansion in exports is certainly satisfactory. In May, 1946, for example, their value was £85.2 million, against £28.7 million in the corresponding month of 1945. Moreover, the volume (as distinct from the value) of exports in May, 1946, was actually 15 per cent. above the average for 1938.

The re-expansion in exports is the consequence of the world's hunger for goods of all kinds and of the organisation of an export drive. For a period of about two years—as after the war of 1914-18—Britain will be able to sell abroad as much as she cares to export. And the amount shipped can be broadly determined by the Government. But once the seller's market has come to an end, Britain will be faced with the stern realities of her new position in the world. The question is whether she will face these realities—more grim than those after the war of 1914-18—more successfully, or whether she will go the road of gradual decay.

Facing the Future

The two salient facts with which Britain is faced are first, backwardness in industrial technique and practice, and secondly, inability to compete with the United States as a provider of capital equipment on credit for the rest of the world. In other words, the United States has the industrial resources to take over the position Britain has hitherto occupied.

It would be very wrong to assume that Britain's future is hopeless. Far from it. The country still has the opportunity—not to challenge America's productive capacity—but to play a leading part in world economic affairs, and to achieve a period of prosperity surpassing those of the past. What does this involve?

First, Britain must at all costs strive to maintain her old advantage of purchasing food and raw materials at least as cheaply as other countries. This means a continuation of the division of labour with other countries, whereby Britain imports food, materials and semi-finished goods from the countries that can offer them at the lowest

price in return for manufactured goods. Any deviation from this policy will only further weaken the country's position. Even between the two wars, when many mistakes were committed, Britain never basically departed from this policy, at least not seriously. True, the price of coal was inflated by the adoption of a policy of restriction instead of modernisation. True, also, there was a tendency to self-sufficiency after the Tariff Act of 1932, buttressed by the Import Duties Advisory Committee, especially in the iron and steel industry, which reduced the country's dependence on Continental imports of semi-manufactured materials (by coincidence this policy was of advantage during the war). True, again, British agriculture received a measure of protection by tariff and subsidy. But the greater part of Britain's need in food and materials continued to be met at prices no higher than those paid by a number of industrialised countries.

The old arguments against the policy of buying advantageously are still in the air or, rather, they have become more insistent. One is based on the fallacy that by buying cheap, Britain diminishes her export possibilities. Another is that technical progress has reached a stage at which many materials formerly imported can equally well be produced at home. The question is not whether a given material can or cannot be produced in this country, but whether the disposition of man-power and material resources is such as to give the maximum net output per head. In other words, it may be possible to grow bananas in this country in large quantities, but the output per man engaged on this occupation is a good deal less than that of a man making television sets.

The certainty is that a serious departure from traditional policy would leave this country high and dry, especially as it is faced with comparatively high manufacturing costs, a consequence of the lack of adequate modernisation of capital equipment and of methods of production. The maintenance of past policy should be possible even with American predominance as a trader. The United States is in favour of the return to a multilateral system of trade and finance because something like the system formerly operated under British leadership provides the best opportunity for universal expansion and, hence, for American exports. Such a system should also enable Britain to continue buying her food and materials at advantageous prices. This means that Britain will continue to be one of the world's largest—if not the largest—importer of food, raw materials and semi-finished products.

Secondly, Britain must strive to reduce her conversion costs in existing industries and to get a sound foothold in new and promising ones. In other words, the country must now tackle the job it failed to tackle after the war of 1914-18. This requires, above all, a new outlook

—a twentieth-century one. After the last war, Britain had faith in her traditional methods and, when these proved inadequate, sought refuge in protection and restrictionism. Persistence in this attitude will spell national ruin. What is now needed is a psychology of expansion, a will to go over to the offensive by bringing industrial and commercial practice right up to the limits of technical knowledge. Industrialists must be willing to scrap their plant and existing practice, not when the accountants have written off existing plant, but when a better and more productive one has been designed. Similarly, trade unions must give up their traditional practice of resistance to change which, in the past, has so often been an obstacle to the introduction of new and more productive methods. Obviously, there are all sorts of technical and financial obstacles that must be removed before a policy of expansion and modernisation can be successfully adopted. But once the need for rapid modernisation is recognised and its implications appreciated, these obstacles will be removed, just as the obstacles to expansion in British overseas trade were removed during the nineteenth century. There was nothing wrong with Britain physically between the two wars; there was everything wrong psychologically.

In practice all this means the formulation of detailed plans for the rejuvenation of existing industries, whether nationalised or in private ownership. And it means the speedy translation into effect of these plans. For example, the nature of the cure of the sick coal-mining industry is now well known; the facts have been established beyond a shred of doubt. But the job remains to be done. In other industries the process of self-examination—the first step in modernisation—is now proceeding. Yet others, however, have been led by the enormous demand for their products into thinking that all is well; these will get a rude shock in about two years, when sellers will once more begin to discriminate. In the motor industry, for example, there is a clear distinction between the popular car and the so-called quality or luxury car of which the Rolls is the outstanding type. There will always be a market for the British quality car. But the popular models are far too expensive, not merely for British pockets but in comparison with the prices at which they are sold at a profit in the United States. Yet British makers of popular cars are proud of their achievements and of the efficiency of their works. No doubt these firms are efficient within the limits of their policy and practice. But, judged by American prices, the industry as a whole is hardly efficient. The solution seems to lie in the concentration of production into fewer units and in the reduction of the number of individual types and models. This could only be achieved by amalgamations of existing firms, that is, by a reduction in the number of independent units. Yet, there are no indications that competition between existing concerns will achieve this result.

Shipping is an example of an industry that has suffered severely from the war. The merchant navy has not only lost a third of its pre-war tonnage, but a substantial proportion of its existing vessels badly require replacement. The reconstitution of an efficient merchant navy must be high on the list of priorities, for it has long been one of Britain's most important export industries. Despite its relative decline before the war, its capacity was then still equal to the one required to carry the whole of Britain's trade with other countries and half the trade of the Empire with foreign countries. And its earnings, or exports, exceeded £100 million in a reasonably good pre-war year. If Britain were deprived of a large merchant navy the country would be faced with the need of importing shipping services.

Equally important is the need to gain a strong foothold in new industries. Civil aviation is one of them. Britain must take to the air as readily as she has taken to the sea. But there are many others, including the radio, television, "radar", and oil-based chemical products. Atomic research seems a line of inquiry that Britain can hardly afford to neglect.

If Britain is to maintain a large volume of imports of food and raw materials—as she must—she will also have to continue exporting on a large scale. This means that the country must be capable of producing the goods and the services that overseas customers like to have at competitive prices. Britain cannot afford to retreat, for retreat in exports would mean defeat.

Thirdly, Britain must strive to seek the best possible division of labour with other countries. By the Bretton Woods and Washington agreements she is bound to enter a system of multilateral trade and exchange under American leadership. But, within the limits of these international agreements it may be possible for this country to strengthen its economic association with Continental Europe, especially with the Western part, in the same sense as the United States has long had—and is still encouraging—special relationships with her neighbours and Russia with hers. Geography, and the rise of two dominating powers west and east have given a new emphasis to the common interest of the countries of Western Europe. Together, they have the resources to make full use of modern industrial technique and to defend their common interest. A deliberate policy of economic integration, especially integration of new capital expenditure, could carry forward the close association already existing before the war. The complex of coal and steel is an obvious example of a fruitful field for co-operation; the chemical industry is another. Like Britain, France, Belgium and Holland also have large empires; co-operation should therefore extend to these. The idea of the economic consolidation of Western Europe is frequently attacked as involving the

constitution of a bloc directed against some third power; in actual fact, it means nothing of the kind. Its aim would be, on the contrary, to ensure the economic independence and prosperity of a group of countries, individually small in this age of giants, within the limits of wider international arrangements.

Fourthly, Britain must strive, not only to balance her accounts with foreign countries, but to achieve once more an export surplus and to build up again her overseas assets.

The balancing of accounts (this is discussed in more detail in the next chapter) is obviously the first need. The American loan of $3,750 million will assist the country over its immediate difficulties. But this credit does not diminish the urgency of expanding exports of goods and services as rapidly as possible, even if this means that the British consumer may have to wait a little longer for his new motor-car or his wireless set than he would have to do otherwise. There are, in fact, three tasks that must be pursued simultaneously—an expansion in exports, the modernisation of British industry, and the increase in the supply of consumer goods. The problem is to achieve balanced progress in all three directions. The balancing of Britain's accounts with overseas countries could be achieved by a permanent reduction in imports. This would deprive Britain of one of her main advantages, that is the ability to obtain food and raw materials on advantageous terms. Equilibrium should therefore be established at a fairly high level of imports. To achieve this, it has been officially estimated that merchandise exports must be raised to 75 per cent. above the 1938 level; in May, 1946, they were 15 per cent. higher than in the pre-war years. There is still a long way to go. The achievement of the target means that Britain will have to export some 25 per cent. of its output of manufactures. Provided these are of the quality desired and competitive in price, this should not be impossible. It is the proportion exported in 1924 and smaller than that of 1913 (it was then a third).

The balancing of accounts would restore Britain's independence; the re-emergence of an export surplus would once more strengthen her influence in the world. Such a policy is often criticised on the ground that investment abroad is no more profitable than investment at home. This may be so in the strict accounting sense, and the argument certainly finds support in the urgent need of the modernisation of British industry. But the fact remains that, unless Britain can once more export goods on credit and invest the proceeds abroad, the country's influence in the world will diminish, and with it its power to take part in the direction of world affairs.

Lastly, lest some readers end this chapter on a note of pessimism, Britain still has the opportunity to play an important rôle in the

world. The aftermath of the last war left the country somewhat bewildered and drifting or, rather, hoping that, somehow, the clock of history would be put back. When this did not happen, it sought salvation in restrictionism. Britain has not yet been shaken completely out of this last phase. But, very tentatively, she is exploring new ways. She is attempting to find a way between the *laisser-faire* philosophy she introduced and practised in the nineteenth century with great success and the rigid authoritarianism of Communism and Fascism. She is hoping to combine planned progress with the maintenance of individual liberty, initiative and enterprise and, in this respect, is certainly ahead of other countries. If Britain succeeds in this attempt and is able to introduce her philosophy into international relations, her contribution to peace and prosperity in the twentieth century may yet be comparable with her contribution in the nineteenth century.

Introduction to

"THE BALANCE OF PAYMENTS"

AFTER an introductory explanation of the concepts of the "balance of payments", Mr. Hill starts with a description of the evolution of the main ingredients in Britain's balance of payments. From the middle of the nineteenth century imports exceeded British merchandise exports and the deficiency grew steadily. In closing the gap a very considerable contribution was made by British shipping services. Thus, in 1913 our adverse balance of merchandise trade was £137 million, while the net value of our shipping services amounted to £94 million. After the First World War there was a steady fall in the relative importance of these net shipping earnings, but even so in 1938 they were worth £100 million.

The decline in the volume of our merchandise exports, however, was consistent, and after 1913 there were frequent and substantial deficits on current account.

The story of Britain's capital transactions goes back much farther, and by the middle of the nineteenth century British overseas investments were already substantial and they expanded uninterruptedly up till 1913. Throughout the whole of this period, the greater part of the earnings of these investments were ploughed in and reinvested. This process was checked by the First World War, and since then British earnings on overseas investments have been used mainly to meet deficits on current trade transactions. In some years even this was insufficient to meet our obligations, and towards the end of the inter-war years we were starting to live on capital. These overseas investments, however, were still substantial when war broke out in 1939.

During the war they played a considerable part in helping Britain to survive. By liquidating some of them she was able to buy the materials necessary for waging war which could not be produced at home. Britain ended the war with her overseas assets greatly reduced; with a heavy debt to the rest

of the world for war time purchases and with the prospect of further debt accumulations pending the balancing of her international trade accounts. On the outbreak of war her overseas assets were valued at roughly £4,500 million. By mid-1945 the country had accumulated a debit balance of £4,700 million. By the time war debts have been adjusted and our current accounts squared again Britain's debit balance may come close to £6,000 million.

Clearly it is impossible for us to expect in the future to pay for any appreciable proportion of our imports as we did before the war by using interest on British overseas investments. In future we will be able to import only what we can pay for with our current efforts. This, as Mr. Hill points out in a final section, will not be an easy process. We are committed now to full participation in a system of world-wide multilateral trade under the leadership of the United States and the system, as far as Britain is concerned, starts operating in July, 1947. Our participation in the system is an expression of Britain's faith in both American economic statesmanship and in our own capacity to survive in a competitive world.

Chapter II

THE BALANCE OF PAYMENTS

By Walter Hill

IN the preceding chapter Britain has been likened to a huge assembly plant, drawing from abroad a large proportion of its food and materials and sending out manufactured goods, shipping, insurance, banking and other services. The creation of this assembly plant has involved a division of labour between Britain and other countries (profitable to both sides) and it has enabled this country to gain influence and power abroad. Its intake of goods and services represents the debit side of the account of current transactions with other countries; its exports of goods and services represents the credit side. The "balance of payments" is simply the credit or deficit in the transactions of the assembly plant with other countries. The balance is a credit if the value of exports of goods and services exceeds that of imports; it is a deficit if the value of imports exceeds that of exports. There is nothing mysterious about the conception of the balance of payments. It closely resembles the profit and loss account of a business firm.

The Meaning of the Balance of Payments

The analogy between Britain's (or any other country's) external transactions and those of a business firm can be pursued a little farther. If the value of exports of goods and services during a given period exceeds that of imports, three possibilities will be open to Britain. First, the balance, or part of it, can be used to pay off overseas debts. Secondly, part or the whole of it can be put to reserve in the form of cash (that is, in gold or the currencies of other countries) or it can be invested (that is, it can be used to finance new enterprises abroad or extensions to old ones, and it can be lent on long-term to overseas Governments). Thirdly, the balance can be distributed as dividends during a subsequent period by importing goods and services in excess of exports.

Again, if the value of Britain's exports of goods and services is smaller than that of imports, the position is reversed. First, Britain can finance the deficit, or part of it, by drawing on accumulated reserves abroad; this means that other countries are reducing their indebtedness to Britain. Secondly, Britain can borrow an amount

equivalent to part or the whole of the deficit; this means that other countries put their credit balance in Britain to reserve. Thirdly, Britain can reduce the value of her imports of goods and services during a subsequent period below that of her exports; this means that other countries are distributing their credit balance in Britain in the form of dividends.

A progressive enterprise, such as Britain's division of labour with other countries has been in the past, is in the habit of "ploughing back" into the business part of its credit balance. This policy has resulted in the accumulation of investments in all parts of the world. The income from them obviously goes to swell the receipts from other countries, that is, it is additional to the proceeds of exports of goods and services. For accounting purposes, income from overseas investments is usually brought into the account of current business transactions, that is, the balance of payments on current account is struck after its inclusion. In Britain it has long been an important factor in determining the size of the credit or debit balance.

Credit (or debit) balances can only be disposed of by one of the three ways enumerated, that is by the repayment of debt, by putting them to reserve or by distributing them as dividends. A country with a credit balance unwilling to adopt any one of these three methods of disposal must inevitably curtail its exports of goods and services or cancel part of its overseas investments. Again, a country with a persistent debit balance unwilling to draw upon its overseas assets (if it has any), unable or unwilling to borrow, and anxious to maintain its imports of goods and services, must either expand its exports or default. There is no other way out.

The relations between Britain and other countries are not confined, of course, to current transactions, that is, imports and exports of goods and services and the collection of interest on investments. Capital transactions which, though intimately linked to the balance of payments on current account, have in the past often been undertaken separately, that is, without direct reference to the size of the credit or deficit on current account during any given period. This means that the capital raised in Britain for the purpose of financing the construction of railways in Argentina, the development of the gold-mining industry in South Africa or that of the rubber plantations in Malaya has not been directly related to the size of the credit balance in the country's current transactions with others during any given period. On the contrary, such capital issues were formerly made independently of current transactions. Capital raised for the development of enterprise overseas is usually spent over long periods; and, pending its expenditure, part of it may be held in the form of cash in this country. Part of the capital invested overseas was usually transferred in the

form of plant, machinery, shipping, insurance and other services. To this extent, overseas investments have influenced the export of goods and services and the balance of payments in current transactions. In other words, the raising of capital for investment abroad often preceded rather than followed the emergence of the surplus or credit balance on current account needed for financing it.

On occasion, the lack of synchronisation between the balance of payments in current transactions and capital transactions has given rise to temporary difficulties, that is, the credit balance on current transactions was not commensurate with capital expenditure. In other words, the sum total of British claims upon other countries arising from the export of goods and services and from interests on existing investments was smaller than the sum total of the claims of other countries upon Britain arising from current transactions and from the transfer of capital. Whenever there was a deficit arising from the overspending of capital Britain had to take one of the three steps open to her in case of a deficit on current account, that is, she had to draw upon her accumulated overseas assets (including gold), borrow, or expand her exports.

Lack of synchronisation also arises during periods of sudden and heavy transfers of capital abroad (or of influx of capital) which have no reference to the balance of payments and, in the past, arose from fears of currency depreciation or from political insecurity. Such movements of so-called "hot money" completely upset the accounts of business transactions between countries.

Over long, as distinct from short periods, the credit or debit balance in current transactions must equal the debit or credit balance on capital transactions. A persistent credit on current account must be offset by corresponding reductions in overseas capital indebtedness or by increases in capital investments. Similarly, a persistent debit on current account must be compensated by a proportionate increase in indebtedness to other countries or by a reduction in overseas assets. In other words, the accounts must be in balance.

While the commercial transactions between Britain (or any other country) and the rest of the world in many ways resemble those of a business firm, there has never been any close accounting in the past. A multitude of current and capital transactions has been carried out quite independently without any reference to the final balance. With some exceptions, such as trade in merchandise and in gold and silver bullion, these transactions were not even recorded in the ledger. True, there were certain automatic devices that, under the gold standard as formerly operated under British leadership, tended to keep the balance of payments on an even keel. But statistical knowledge of its evolution in detail is even now extremely thin. Indeed, if there

is anything mysterious about the balance of Britain's payments with the rest of the world it is the lack of precise statistics; the conception itself is no different from that of a business man of the accounts of his firm.

The story of the evolution of Britain's balance of payments is essentially that of the financial aspect of the integration of her economy with those of other countries. The remainder of this chapter consists of three parts: the evolution of the ingredients in current and capital transactions; the revolution during 1939-46; and the problems ahead.

Current Transactions

The ingredients in Britain's current commercial transactions with the rest of the world are merchandise and services. The most important single ingredient is the trade in merchandise. The evolution of this trade, and of the balance, are recorded at the foot of this page for five-yearly periods from 1855.

To many the most surprising feature of these figures may be the fact that the value of retained imports was in excess of the value of British exports as long ago as the middle of the nineteenth century and has been consistently larger ever since. In other words, Britain has persistently had an adverse balance in her merchandise trade for a hundred years; and the deficit has been growing steadily,

TABLE I.—British Overseas Trade in Merchandise

Annual Averages	Retained Imports (£ million)	Exports of British Goods (a) (£ million)	Balance of Trade (£ million)
1855-59	146	116	−30
1860-64	193	138	−55
1865-69	237	181	−56
1870-74	291	235	−56
1875-79	320	202	−118
1880-84	344	234	−110
1885-89	319	226	−93
1890-94	357	234	−123
1895-99	393	238	−155
1900-04	466	289	−177
1905-09	522	377	−145
1910-14	609	465	−144
1915-19	1,069	543	−526
1920-24(b)	1,141	865	−276
1925-29	1,113	717	−396
1930-34	742	418	−342
1935-39	827	460	−367

(a) Exclusive of ships and machinery until 1899.
(b) Irish Free State created on April 12, 1923.

not merely as an absolute amount but also as a proportion of imports. During 1855-59, the deficit was equivalent to 20 per cent. of retained imports, during the five years from 1900-04 it averaged 38 per cent. of imports. For a short period before and after the war of 1914-18, the balance of trade was more favourable; during the five years from 1920-24, the deficit was equivalent to only 24 per cent. of the declared value of retained imports; but the improvement was short-lived, for during 1935-39, the deficit was equivalent to 44 per cent. of retained imports.

The temporary narrowing of the gap between the declared values of retained imports and exports after the war of 1914-18 was due, in part, to the world's hunger for manufactures and to the export drive of manufacturers anxious to re-establish their pre-war trade. (The effort was then an individual rather than a collective one.) It was assisted by the favourable trend of the terms of trade, that is by the fact that average export prices rose in relation to average import prices which involved an increase in the volume of imports obtained per unit of exports. In 1920, for example, average export prices were 258 per cent. higher than in 1913, while average import prices had risen by only 185 per cent. In 1924, average export values were still 89 per cent. above the 1913 level, compared with 55 per cent. for imports. The reduction of the gap between imports and exports did not, therefore, involve a corresponding expansion in the volume of exports. Indeed, the average volume of exports during 1920-24 was 30 per cent. less than in 1913, whereas that of imports showed a reduction of only 10 per cent.

Changes in the terms of trade (as recorded in Chapter I) have consistently been in favour of this country, especially during periods of business slumps. The most striking recent example is the period from 1930 to 1933, when average import prices fell by 27 per cent. and average export prices by only 16 per cent. This movement explains the fact that that period was one of heavy unemployment accompanied by a rise in the standard of living of those that were able to retain their jobs.

The record of merchandise trade is thus one of a growing absolute and relative deficit which would have been still larger (on the basis of the actual volume of imports and exports) if it had not been for the persistent fall in the average price of imports relative to that of exports of merchandise.

At a first glance this record is difficult to square with the heavy accumulation of large overseas assets during the nineteenth century and the early part of the twentieth. The explanation is, of course, that, important as they are, merchandise exports are by no means the only ingredient in Britain's transactions with the rest of the world.

The ingredient second in importance to merchandise on the export side is shipping services. As is shown in Chapter I, Britain's merchant navy grew steadily with the expansion in world trade. In 1913, Britain possessed some 44 per cent. of the world's total sea-going carrying capacity. The British merchant navy then not only carried the greater part of the Empire's sea-borne trade but a large proportion of that of other countries.

Unfortunately, there is no complete and precise record of the value of the services rendered by the British merchant navy since the middle of the nineteenth century. In assessing this value, account must be taken not merely of services rendered to other countries, but also to British merchandise trade, for, had it not owned ships, this country would have been compelled to import shipping services, that is, to pay other countries for carrying its imports and its exports. In 1913, the value of the shipping services rendered by the British merchant navy, less the value of the services of foreign ships rendered to Britain was estimated at £94 million. The significance of this figure can be appreciated if it is compared with the adverse balance in merchandise trade which was £137 million in that year. In other words, shipping services went a long way towards meeting the deficit in the balance of merchandise trade.

After the war of 1914-18 (except for a short period when shipping freight rates were very high—in 1920 net shipping earnings rose to £340 million), the relative importance of shipping earnings began to decline with the fall in the proportion of the world's tonnage owned by Britain. Nevertheless, they contributed substantially to Britain's income from current transactions right up to the last war. They reached their lowest pre-war level in 1933, with net earnings of £65 million; but immediately before the war shipping again contributed around £100 million to the country's income from current transactions.

Next to shipping there is a multitude of other services, including those rendered by insurance, banking, the international commodity markets located in Britain and other institutions. Here again the factual record is extremely poor. In 1913 the value of these services was estimated at around £35 million, and before the last war estimates were in the neighbourhood of £40 million. These are by no means insignificant amounts, especially as they are calculated on a net basis. They allow, for example, for the deficit in expenditure by tourists, and for the deficit on film royalties.

In the past the expenditure of British tourists abroad roughly balanced the expenditure of foreign tourists in Britain, though in immediate pre-war years there was an annual deficit of about £5 million: the expenditure of British tourists abroad amounted to

some £35 million a year against £30 million a year spent by foreign tourists in this country. Other countries, such as Switzerland and France, have developed the tourist trade to the point of making it one of the chief sources of income in transactions with the rest of the world. In film royalties, too, Britain has been accustomed to an annual deficit, amounting to £5-6 million before the war.

Although details are lacking, the sum total of exports of merchandise and services was sufficient, in most years until 1913, to pay the whole or the greater part of the bill for imported goods and services, this means that earnings from shipping and other services covered the greater part of the deficit in the trade in merchandise, shown on page 32. In 1913, for example, there was a deficit of only about £15 million in Britain's current transactions with the rest of the world.

The year 1913 was the end of the era during which Britain paid for her imports of goods and services with exports of goods and services, or, at any rate, for all but a small proportion of them. During the war of 1914-18 Britain was running a heavy deficit on current account. A revival of exports at high prices permitted the country to balance the account of current transactions once more in 1920. After that came a series of growing deficits, averaging some £143 million during 1922-28 and exceeding £200 million in the years before the last war.

The Export of Capital

One of the most important sources of income from overseas omitted from the account of current transactions is the capital invested abroad by Britain. Here again, the early record is sadly incomplete and lacks precision.

It is, of course, well known that Britain began to invest capital overseas long before the nineteenth century. Incomplete records show that the amount thus invested was already substantial by the middle of the last century. Estimates of the size of overseas investments (nominal value) and of the income derived from them are given in Tables II and III, based on statistics published by *The Economist* on November 20, 1937. (Neither the capital nor the income statistics are comprehensive; somewhat higher income figures are used in computing the balance of payments.)

The statistics show an almost uninterrupted expansion in capital and income up to 1913. Originally the accumulation was only made possible by a surplus in Britain's current transactions with the rest of the world. During the second half of the nineteenth century and until 1913, the surplus arising from current transactions must have declined steadily and, on occasion, there was probably an adverse balance. During this period Britain invested abroad each year an amount broadly—but probably not wholly—equivalent to her income from

past accumulations of capital. Part—though only a small part—of the income from overseas investments was already needed to make good small deficits in current transactions. Britain, like a prudent business man, put to reserve a substantial part of her aggregate annual income and thus rose to the position of the world's leading creditor, a position that she held up to the war of 1939-45.

TABLE II.—The Expansion of British Capital Abroad

Date	Estimates	Source	Scope and Qualifications
	£ millions		
1854	195-230	Jenks (*a*)	Does not include "direct investment" or investment in the British Empire.
1880	1,150	Nash (*b*)	Omits commercial investment (chiefly mines) other than railways.
1885	1,302	Hobson (*c*)	Obtained by capitalisation of Inland Revenue figures of investment income
1895	1,600		
1905	2,025		
1907	2,694	Paish (*d*)	Stock Exchange securities only.
1909	2,339	Hobson	See above.
1913	3,763	Feis (*e*)	Publicly issued capital only.
1929	3,391	*The Economist* (*f*)	Stock Exchange securities and other securities of British companies only. Omits estimate of £50 million for nominee holdings.
1929	3,438	Kindersley (*g*)	Stock Exchange securities and other securities of British companies only. Excluding unquoted securities estimated at about £[illegible] million.
1930	3,424		
1931	3,410		
1932	3,356		
1933	3,385		
1934	3,414		
1935	3,438		
1936	3,364		
1937	3,353		
1938	3,292		

(*a*) L. H. Jenks, "The Migration of British Capital"
(*b*) "A Short inquiry into the Profitable Nature of Our Investments", quoted and and amended by Jenks, op. cit.
(*c*) C. K. Hobson, "The Export of Capital"; based on Hirst's 1912 edition of Porter's "Progress of the Nation".
(*d*) Sir George Paish, Journal of the Royal Statistical Society, 1909.
(*e*) Herbert Feis, "Europe, the World's Banker"; based on estimate by Sir George Paish in *The Statist*, February 14, 1914.
(*f*) October 18, 1930.
(*g*) Sir Robert Kindersley, *The Economic Journal*.

The war of 1914-18 caused the first serious halt in the growth of overseas investments. The country was then running a heavy deficit on current account which even the interest on overseas investments could not cover. It was compelled to draw upon its capital assets and incurred losses totalling some £1,000 million, equivalent to more than a quarter of the nominal value of investments. These losses were

TABLE III.—Income from British Capital Abroad

(£ million)

Years	Sources		
Annual Averages	Hobson (*a*)	Inland Revenue (*b*)	Kindley (*c*)
1870-74	48·0	—	—
1875-79	47·6	—	—
1880-84	53·1	—	—
1885-89	76·6	—	—
1890-94	90·3	—	—
1895-99	94·7	—	—
1900-04	104·7	—	—
1905-09	138·2	—	—
1910	166·0	—	—
1911	171·0	156·3	—
1912	176·0	166·6	—
1913	—	180·0	—
1914	—	176·2	—
1915-19	—	—	—
1920-24	—	179·7	—
1925-29	—	230·6	—
1929	—	238·7	230·9
1930	—	206·2	209·0
1931	—	173·5	168·7
1932	—	165·1	156·4
1933	—	164·6	149·7
1934	—	168·8	159·2
1935	—	—	167·9
1936	—	—	184·0
1937	—	—	197·7
1938	—	—	184·9

(*a*) Based on Inland Revenue returns.

(*b*) The Inland Revenue Commissioners divide "income arising abroad to British residents" into three groups: 1. Dominion and foreign interest and dividends paid through paying agents in this country or received by the encashment of coupons through bankers, coupon dealers, etc., in this country. 2. Income arising from business controlled in this country but mainly carried on abroad and with assets situated abroad, interest and dividends payable abroad (not included in Group 1) and income from other foreign possessions 3 Income arising from trading operations carried on abroad by British concerns trading mainly at home but partly abroad. Group 1 is identifiable. Group 2 is in part identifiable, and certain data exist on which an estimate of the aggregate amount can be made. Group 3 cannot be identified.

(*c*) Including estimated income from unquoted securities.

largely made good during the decade after the war, though the greater part of the income from overseas investments was then needed to finance the deficit in Britain's current transactions with the rest of the world. After 1929 the accumulation of capital ceased almost completely. The whole of the income from investment was then needed to bridge the widening gap between imports and exports of goods and services and, during the years immediately preceding the last war, even this was no longer fully adequate to make ends meet. Britain, indeed, began to live on her capital during the decade before the last war.

The geographical distribution of Britain's overseas assets has undergone a marked change since partial evidence became available. An analysis of the estimate made by Nash for 1880 (see Table II), shows that only 20 per cent. of his total of £1,150 million was then invested in the Empire. Of Dr. Feis's figure of £3,763 million, no less than 47 per cent. was in the Empire. In 1929 *The Economist* estimated the Empire proportion at 57 per cent. and since then it has shown a further increase. Like the distribution of Britain's merchandise trade, analysed in the preceding chapter, that of her capital has shifted in favour of the Empire.

The average return on Britain's overseas investments has not been unsatisfactory. According to Sir Robert Kindersley's estimates, this was 6.2 per cent. on share and loan capital in 1929. (The return on direct commercial investments, excluded from his estimates, was probably higher.) Even during the business slump of the early 'thirties the yield on nominal capital never fell below 4.4 per cent.

Policy in the export of capital after the war of 1914-18 was a reflection of persistent unemployment and of the diminution and subsequent disappearance of the favourable balance of payments, inclusive of income from investments.

First, the Trade Facilities Acts of 1921 to 1927 authorised the Treasury to guarantee the principal and interest of loans, the proceeds of which were to be spent in Britain. The loans made under this scheme totalled only £20 million. The advances made under the Colonial Development Act, 1929, from the Consolidated Fund to Colonial Governments for purposes of development can also be classified under this heading.

Secondly, before the return to the gold standard after the last war the Bank of England, in co-operation with financial institutions, exercised an unofficial censorship upon new issues for overseas and other transfers of capital overseas. This unofficial embargo was suspended from the end of 1925 to 1930, but currency difficulties led to its re-introduction in the latter year. At the time of the War Loan conversion of 1932 the then Chancellor of the Exchequer requested the temporary

suspension of new issues. The embargo was relaxed but never completely suspended. The terms of reference of the Foreign Transactions (Advisory) Committee, appointed in April, 1936, and requested to keep in close touch with the Treasury and the Bank of England, were summarised as follows in *The Economist* of November 20, 1937.—

(1) The sterling exchange is to be protected against sudden and dislocating strains.
(2) Due allowance is to be made for new issues on behalf of Empire borrowers, and the movement of international securities between London and other markets is also to be borne in mind.
(3) Relaxation of the restriction is to be made in favour of loans to finance exports from the United Kingdom.
(4) British-owned enterprises abroad are to be favoured, rather than loans which do little for our industry and commerce; account is to be taken of the treatment accorded to British-owned enterprises by the foreign country concerned.
(5) Capital required for development in the United Kingdom should not be restricted by excessive lending abroad.
(6) Favourable consideration is to be given to applications for sterling issues by a country within the sterling area where the loan is required to increase the sterling assets of that country and so to minimise fluctuations of the exchanges.

Before the war of 1939-45 Britain's balance of payments had thus passed through three phases.

During the first, up to 1913, Britain's income from exports of goods and services came near to balancing her bill for imported merchandise and services performed for her by other countries. During this period an amount substantially equivalent to the whole of the income from overseas investments was added each year to these assets which, in 1913, totalled some £3,763 million (nominal value) and yielded an income of about £180 million on the basis of Inland Revenue statistics. The market value of overseas investments was probably in excess of this estimate, and the total net income has been estimated at £210 million.

During the second phase, coinciding with the 'twenties, the income from overseas investments was heavily drawn upon to meet the deficit in Britain's current transactions with the rest of the world; nevertheless, the country succeeded in making good the greater part of the £1,000 million overseas investments sold and lost during 1914-18.

During the third phase, in the 'thirties, Britain needed the whole of her income to finance the deficit in her current transactions with the rest of the world; indeed, she began to draw on her overseas assets—that is, capital repayments began to exceed new investment—though

still to an insignificant extent. Moreover, a beginning was made with the control over the size and direction of new capital exports. The British economy remained integrated with the world economy and, on the whole, the division of labour between her and the rest of the world was continued. But the system was not further developed. A growing proportion of Britain's output of goods and manufactures was retained at home, 85 per cent. before the last war, against two-thirds before the war of 1914-18. This was not so much a matter of deliberate policy as of the difficulties encountered on the export markets; these difficulties were partly a reflection of worldwide tendencies towards self-sufficiency in the 'thirties, but they were aggravated by the lack of resilience (discussed in the preceding chapter) within the British economy between the two wars.

Although the third phase in the evolution of Britain's commercial relations with the rest of the world marked the end of the long period of expansion, it was one of hesitancy rather than of deterioration. Fortunately for the country, its immense wealth and influence overseas were still substantially intact in 1939.

The War of 1939-45

During the war of 1939-45 the assets so carefully accumulated abroad by Britain over a long period of years proved to be a source of immense strength; indeed, it is doubtful whether, without them, Britain would have been able to withstand the onslaught of the Axis, especially in its initial phase. These assets enabled the country to maintain essential imports and to finance military operations abroad during a crucial period of the war; and they enabled Britain to place heavy orders in the United States for ships, machine tools and munitions while that country was still insisting on "cash and carry", and while it was still at peace. For example, the orders placed in the United States, and the extension of shipbuilding, machine tool and munition-making capacity they involved, were responsible, in no small measure, for the ability of that country to multiply its industrial war potential with great rapidity after the Japanese attack upon Pearl Harbour. Although the size of Britain's cash purchases in the United States was subsequently overshadowed by massive lend-lease deliveries, these do not detract from the crucial importance of Britain's ability to finance imports during the initial phase of the war.

Unfortunately, the depletion of Britain's overseas assets has weakened Britain's ability to meet another emergency; it has diminished an important source of income in peace; and it has weakened the country's influence abroad in so far as this derived from its former position as the world's leading creditor. All these consequences are the penalties of living on capital; their full implications have as yet

been scarcely appreciated. The depletion of overseas assets amounts to something like a revolution in the country's position.

True, even before the war, Britain began to live on her capital, but the inroads made in the 'thirties were still small in relation to the sum total of her resources. During the three years, 1936-38, British claims upon other countries arising from the export of goods and services fell below the current claims of the rest of the world upon Britain by an average of £246 million a year. The excess of merchandise imports over exports averaged £388 million. Towards this deficit the net income from services—shipping (£105 million), insurance, banking and commissions (£37 million), and other sources (£7 million)—contributed £149 million, thus reducing it to £239 million. The excess of Government expenditure over revenue—some £7 million—comes to be added to the deficit, raising it to £246 million. The greater part of the deficit—£203 million—was covered by interest on overseas assets, leaving an excess of foreign claims upon Britain over British claims upon the rest of the world of £43 million a year.

During the war the tendency to live on capital was sharply accelerated. Although imports were reduced to essentials, the need for materials and munitions was great. Costly military operations had to be carried out abroad. Exports were heavily cut — during 1943 and 1944 they were reduced to less than a third of their volume before the war. Other sources of income, including the income derived from overseas assets, also yielded a diminished return. As a result, the balance of payments has been heavily in deficit since 1939. The size of these deficits is shown in Table IV.

TABLE IV.—Britain's Deficits in Current Transactions with Other Countries

Year	£ million	Year	£ million
1939	250	1943	680
1940	804	1944	659
1941	816	1945	819
1942	663	Total	4,691

These deficits were met by three methods. First, the Government drew upon public and private cash resources, that is gold and foreign exchange. These were reduced from the equivalent of £605 million at the end of August, 1939, to £74 million at the end of 1940. They constituted a vital and immediately mobilisable reserve. Subsequent replenishments brought them back to £453 million at the end of June, 1945, involving a loss, since the outbreak of the war, of £152 million.

Secondly, between the outbreak of war and June, 1945, the Government drew upon private long-term investments to the extent of £1,118 million. Investments in the sterling area were reduced by £564 million; assets in North America (the United States and Canada) by £428 million; and those in the rest of the world (mainly South America) by £126 million. A large proportion of these investments were liquidated in the early part of the war.

Thirdly, the Government piled up heavy debts abroad. At the outbreak of the war the balances of other countries in Britain totalled £476 million. (At the end of August, 1938, they amounted to £760 million.) These balances were held in London, mainly by Empire countries, to finance foreign trade and as a backing for currencies. Between August 31, 1939, and June 30, 1945, these balances increased by £2,879 million to £3,355 million. The increase represents the debt incurred by this country during the war. Of the total outstanding at the end of June, 1945, much the largest part—£2,723 million—was held by sterling area countries; some £303 million were held in North and South America; £267 million were owing to European countries, including their dependencies, and £62 million by the rest of the world.

The sum total of these figures—£4,198 million (inclusive of an unallocated amount of £49 million)—is somewhat smaller than that of £4,691 million shown in Table IV; the difference is explained by the fact that the larger figure includes the debit balance of payments for the whole of 1939 and 1945.

Peace has not put an end to the excess of the current claims of other countries upon Britain over the claims of Britain upon the rest of the world. There will be a period of transition during which Britain will continue to run a heavy, though diminishing debit balance. During this period she will be unable to raise the exports of goods and services to a level at which these, and the income from the remaining overseas investments, will pay for essential imports and for military expenditure overseas. If the debit balance during the transition period equals the credit of $3,750 million granted to Britain by the United States in July, 1946, and that of $1,250 million obtained from Canada a few months earlier, the country will have accumulated a debit balance of £4,691 million plus £1,250 million, that is, a total of no less than £5,941 million or in round figures, £6,000 million.

This total of £6,000 million actually exceeds the sum total of Britain's cash holdings (gold and foreign exchange) and of the nominal value of long-term overseas investments at the outbreak of the war. Cash holdings then amounted to the equivalent of £476 million, and the nominal value of overseas assets (inclusive of £400 million of unquoted securities) was estimated by Sir Robert Kindersley at £3,692 million at the end of 1938—a total of £4,168 million. The

market value of overseas investments was probably in excess of their nominal value, and some of the remaining investments have probably shown some appreciation as a result of the depreciation of the pound in terms of dollars and because of the tendency to inflation. Nevertheless, the staggering implication of these figures is that the war has turned Britain from the position of the world's leading creditor on capital account to that of a debtor.

The final position at the end of the period of transition cannot be estimated with precision at this stage. Since the debts incurred abroad by Britain—mainly in Empire countries—arose directly from war expenditure, her creditors may be willing to approve settlements that will not be too onerous. According to the Financial Agreement between Britain and the United States concluded in Washington in December, 1945 (published as a White Paper, Cmd. 6708), the approach to settlements will be on these lines:—

(i) A proportion of the balances is to be released and to become convertible into any currency for current transactions when the United States credit of $3,750 million is approved by (the American) Congress;

(ii) A second proportion is to be released in instalments over a period of years beginning in 1951; and

(iii) The remainder is to be adjusted (that is, scaled down) as a contribution to the settlement of war and post-war indebtedness, and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

Again, it is possible that Britain will not need the whole of the American and Canadian credits during the period of transition; the extent to which they will be drawn upon will depend on the kind of settlement made with the other creditors, on the efforts made by Britain to balance her accounts by an expansion in the export of goods and services and, of course, on the size of military expenditure abroad during the next few years.

Whether, at the end of the period of transition, Britain will be a debtor country or whether, on balance, she will still be a creditor, there can be no doubt that the war has struck a cruel blow at her financial strength in so far as this rested on her position as a large creditor.

Nevertheless, the implications of the depletion of Britain's overseas assets should not be exaggerated. First, only about a quarter of the debit balance of payments during the period of the war has been met by the liquidation of capital assets; the remainder has been accumulated in the form of debts. This procedure has two important consequences.

First, the greater part of pre-war overseas assets—between two-

thirds and three-quarters—is still in British ownership. This means that the country will continue to enjoy the income these investments confer upon it. If the debit balance of payments had been financed more extensively by the sale of investments and commercial interests, the damage would have been far greater. The transfer of the American Viscose Corporation—a subsidiary of Courtaulds—to American ownership is a much greater blow to this country than the borrowing of an equivalent amount from the American Government. Fortunately, wholesale transfers of British property have been avoided. Britain still has a large volume of overseas assets. The task now is to prevent further liquidations and, if possible, to repair the ravages caused by the war and its aftermath.

Secondly, the average rate of interest received by Britain on her overseas investments greatly exceeds the rate of interest that she pays on her new debts. It has been officially estimated that Britain's income from her remaining overseas investments still amounted to £170 million during 1945 (White Paper, Cmd. 6707); this shows a comparatively small reduction from the pre-war income of just over £200 million a year. As Table V shows, the payments that Britain had to make on her debts to the rest of the world totalled £73 million. In 1945 Britain was thus still a creditor on income account (as distinct

TABLE V.—Britain's Receipts and Payments of Interest and Dividends, 1945

(£ million)

	Gross Receipts	Gross Payments	Net Receipts
Sterling Area:—			
Dominions (Australia, New Zealand, South Africa, Eire)	45	16	29
India, Burma and Middle East... ...	11	22	−11
Colonies and other Sterling Area Countries	17	12	5
Unallocated	22	—	22
Total	95	50	45
North America:—			
United States	9	13	−4
Canada	14	3	11
Total	23	16	7
South America	28	1	27
Europe	12	6	6
Rest of World	12	—	12
All Countries	170	73	97

from capital account) to the extent of £97 million. In other words, Britain's net income from overseas was still almost half as large as before the war. From 1951 onwards Britain will also have to pay interest on the North American credits, amounting to some £25 million a year if they are fully utilised. The interest payable in future on the sterling balances accumulated by Empire and other countries during the war will, of course, depend on the nature of the settlements eventually made with them. But there is justification for the belief that the balance on income account will continue in Britain's favour.

There remains the problem of repayment. If the overseas debts incurred by Britain during and immediately after the war are to be repaid, this can only be done by further liquidations of British overseas assets or by the achievement of a surplus on current transactions with the rest of the world, that is, Britain's claims upon other countries arising from the export of goods and services—and from investment income—will have to exceed the corresponding claims of the rest of the world upon Britain. There is no other way out, short of cancelling Britain's war debts. If, on balance, British overseas investments are to be maintained, Britain will thus be faced with the double task, first of balancing her current accounts with other countries as quickly as possible and, secondly, of securing an excess of British claims on foreign countries over foreign claims upon Britain equivalent to the amount needed for debt repayment. This task is complicated by the fact that Britain can no longer rely on her pre-war net income of more than £200 million a year from investments overseas; indeed, this income may in future amount to less than £100 million a year (gross receipts less payments of interest and dividends).

The annual amount actually involved in repayment will depend on the settlement reached with Britain's creditors—that is on the capital sum to be repaid—on the size of the balances that they are willing to hold on current account, and on the period of repayment. None of these factors can be accurately assessed at this stage. All that is possible now is to illustrate, by way of an example, the kind of sum that may be involved. Suppose British liabilities (excluding the credits from the United States and Canada) amount to £4,000 million at the time of settlement; suppose, also, that Britain's creditors are willing to hold twice as much sterling in future than in August, 1938, that is £1,500 million instead of £760 million; suppose, further, that, on an average, one-third of the liabilities is remitted as part of the settlement. Britain would then have to repay £1,666 million, say £1,650 million in round figures. Together with the United States and Canadian credits—£1,250 million—the amount to be repaid would be £2,900 million. If repayment were spread equally over fifty years (as in the case of the American credit), Britain will have

to transfer the equivalent of £58 million a year. This may not seem an exorbitant figure. But it represents a steady drain on British resources. Its significance becomes apparent if an equivalent amount could be employed in building up Britain's overseas investments over a period of fifty years. Obviously, the transfer of £58 million will render all the more difficult the replenishment of Britain's depleted stock of overseas investments.

Britain has thus ended the war with her overseas assets much reduced, with a heavy debt owing to the rest of the world, and with the prospect of further debt accumulations pending the balancing of her current accounts with other countries. Between 1939 and 1945 the country accumulated a debit balance of £4,691 million in its transactions with the rest of the world. Subject to the adjustment of war debts, this debit balance may come close to £6,000 million by the time current accounts are squared again. This exceeds the nominal value of British pre-war overseas investments (estimated by Sir Robert Kindersley at £3,692 million at the end of 1938) and of public and private gold and foreign currency holdings (amounting to £605 million at the outbreak of war). It also exceeds estimates of the market value of Britain's overseas assets at the end of the war, for the rise in values has scarcely offset sales made between 1939 and 1945. Britain has thus become a debtor on capital account.

On income account, however, Britain still remains a creditor country. In 1945, gross receipts from investments were £170 million and payments to £73 million, leaving a credit balance of £97 million. Since the end of 1945, the size of Britain's foreign debt has been increased by further accumulations of sterling balances and by the credits from the United States and Canada. This means that interest payments may in future exceed £73 million.

Further, there is the problem of repayment of war-time debts. Even if the settlement with Britain's creditors is a generous one, the repayment of debt will add to the country's problems and will render more difficult any attempt to make good the losses of foreign assets suffered during the war. The amount involved in interest and debt repayment may well absorb the greater part of Britain's income from her remaining overseas assets.

Up to 1914 Britain added steadily to her overseas assets, first by an excess of exports of goods and services over imports and, later, by "ploughing back" the greater part of the income from investments. During the war of 1914-18, the country drew on its overseas resources to finance the war and sustained losses totalling more than £1,000 million. It also found itself enmeshed in a régime of war debts that involved heavy payments in interest and capital to the United States but was to be financed ultimately from German

reparations. During the 'twenties Britain managed to replenish her overseas assets by putting to reserve part of her income from existing investments. During the 'thirties Britain began to live on capital, though only to a small extent; the régime of war debts crashed during the early part of the great business slump. During the war of 1939-45 Britain was compelled, for the second time, to draw upon her resources overseas, but to a much larger extent. Once again, the country is faced with a régime of war debts—though this time the sums involved are much larger and not linked to reparation payments. The question is whether Britain will once more be able to make good her war losses and whether she will be able to meet her obligations to her creditors.

Problems Ahead

It is easy to prescribe what Britain should now do to retrieve her position. First, she should square her current accounts with the rest of the world as quickly as possible, and keep the deficit during the period of transition well within the compass of the credits of £1,250 million obtained from the United States and Canada. Squaring the accounts means exporting goods and services to a value that, together with the income from the remaining investments, is sufficient to pay the bill for imports of goods and services, for interest on foreign debts and, if Britain's overseas assets are to be maintained, for capital repayments. If the division of labour between Britain and the rest of the world is to be resumed—in other words if the country is to retain the advantages conferred by buying food and materials cheaply—the accounts will have to be balanced, not by cutting the volume of imports permanently below the pre-war level, but by raising exports above that level by an amount equivalent to the sum total of the debit balance before the war (this averaged £43 million in 1936-38), the fall in gross investment income (this was about £30 million smaller in 1945 than before the war), and the cost of the service of the debt to other countries incurred during and since the end of the war. Popular targets have been set by the Government. Merchandise exports are to be 75 per cent. above 1938 (in terms of volume). The sources of "invisible" income are to be repaired by the reconstitution of the merchant navy and by the encouragement of the tourist trade.

Secondly, once the accounts are squared, an effort should be made to make good the loss of overseas investments. This means that the sum total of British current claims upon other countries, arising from exports of goods and services and from investment income must exceed the corresponding claims of the rest of the world upon this country.

Obviously, the attainment of these desirable ends postulates a

favourable international climate. White Papers have already laid down the aims. The signatories to the Final Act of the Bretton Woods monetary and financial conference recommended in 1944 that the world should reach agreement as soon as possible on ways and means whereby they might best:—

(1) Reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;
(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;
(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes; and
(4) facilitate by co-operative effort the harmonisation of national policies designed to promote and maintain high levels of employment and progressively rising standards of living.

History, unfortunately, is not written by well-meant resolutions, expressing laudable aims. It is written by the acts of men and nations who are often motivated not by the general good but by self-interest and prejudice. The ship of post-war Britain has been launched upon a cold and cruel world and not upon one that is going to be governed by impartial and benevolent world agreements, whether in the realm of security or economics. The political and, with it, the economic equilibrium of the world has been destroyed by the war—and a new one is not yet in sight.

In theory this country has a choice of five policies which must govern its trade policy. First, it might adopt a policy of non-armed neutrality, entrusting its security to U.N.O. and its prosperity to its economic counterparts. Secondly, it might pursue a policy of armed neutrality, entrusting its security to its armed might and its prosperity to a régime of self-sufficiency. Thirdly, it might link its fortunes to that of the United States, on the assumption that that country would underwrite its security and its prosperity. Fourthly, it might link up with the United States and Western Europe as the best guarantee against adversity. Fifthly, it might seek security and prosperity in close association with Western Europe and its empires, within the limits of wider international agreements for security and prosperity. It is upon the wisdom of its political decision that the future of British security and of its trade will ultimately depend.

The final decision has not yet been made, though a long step towards it was taken at Bretton Woods in 1944 and in Washington in December, 1945, when British officials accepted the conditions attached by the United States to the line of credit of $3,750 million sanctioned by Congress on July 13, 1946. The decision meant the

acceptance by Britain of American leadership in a new system of multilateral trade and finance analogous, in principle, to the gold standard régime operated so successfully under British leadership until 1914. It also means that Britain has decided to entrust her security to a system in which the United States is the leading partner and, at least temporarily, has foregone the fifth choice, that is of seeking security and prosperity in closer association with Western Europe within the limits of wide international agreements.

The terms of the Washington Agreement of December, 1945, bind Britain to the United States, politically and economically.

First, Britain is now largely precluded from making special economic arrangements with other countries. By subscribing to a multilateral system of trade and finance, the country will not be allowed to discriminate between sources of supply of imports and, in current transactions, its currency must be freely convertible into the currencies of all other countries adhering to the régime. The United States has already more than hinted that she expects Britain to abolish even existing arrangements, such as the system of Empire preferences, though Britain has made any change conditional upon the introduction of a really liberal import policy by the United States.

Secondly, Britain has undertaken to enter the new multilateral system of trade and finance within a year of the ratification of the credit agreement, that is in July, 1947. Other countries adhering to the Bretton Woods Agreement have five years to get ready for adopting multilateralism; but they will have the right to convert sterling into gold or dollars. In practice this may mean that Britain can be called upon to pay gold and dollars for her imports, while she can only claim gold or dollars from her exports to North America.

Thirdly, Britain will be exposed to the full blast of another business slump in the United States. There are no indications, at this stage, that America is going to implement in full the recommendations of the signatories to the Final Act of Bretton Woods, especially that relating to the harmonisation of full employment policies. Seventeen years ago, in 1929, the United States was equally confident of her ability to avoid serious trade slumps. Shortly before the biggest slump in history, one of her foremost economists, Wesley Mitchell, put on record his opinion that, while the trade cycle had not been completely eliminated, its amplitude had been greatly reduced. Yet, if another slump does come, the new multilateralism will crash as surely as the gold standard did in the early 'thirties. But the terms of the Washington agreement prevent this country from taking out an insurance policy in the shape of special economic arrangements with other countries, designed to ensure full employment. Another severe business slump, accompanied by heavy unemployment, might

break not merely the new multilateral régime, but also tear the political fabric of the new world now emerging painfully from the war.

The acceptance by Britain of the Washington credit agreement is really an expression of faith in the United States, in her political and economic statesmanship. And, now that the agreement has been signed, sealed and delivered, Britain will have to make an effort to make it work. What does this mean in terms of policy?

First, Britain will have to make the best of the few years left—perhaps two or three—before the next slump in the United States. And making the best does not merely mean pushing her exports. It means laying at least the basis for the modernisation of British industry so that, when the storm comes, the country will be able to sell its goods and its services at competitive prices and will not be left "high and dry".

Secondly, within the limits still permissible by the Washington agreement, Britain should put her trading arrangements with other countries on the firmest possible basis. This does not merely mean producing goods of competitive prices and quality, but producing the kind of goods likely to be purchased even in adversity by Britain's best customers, not merely the goods that happen to find a market anywhere at present.

Thirdly, it may be possible, even now, to extend the practice of the division of labour with near neighbours and with Empire countries. The United States is actively pursuing such a policy in her own hemisphere, and Russia is doing likewise within her sphere of interest. Why not Britain in hers?

Fourthly, in negotiating the settlement of her war debts, Britain will have to press for realistic arrangements, that is for arrangements she can undertake to fulfil. There is little to be gained from settlements that cannot be maintained by any stretch of the imagination. Bled white, as the country was during the war, and exposed as it is to the blast of any trade slump that may occur across the Atlantic, it cannot carry too heavy a burden without breaking under the weight.

Britain can retrieve her fortunes, but only in a climate of peace and prosperity. Her balance of payments problem is not merely one of arithmetic; it is a matter of survival as a prosperous and independent country. Efficiency is the first condition of success; an effort to improve the political climate of the world and, hence, the opportunity to trade, is the second—nothing would be more calculated to wreck the effort at balancing the trading accounts than a sustained period of heavy military expenditure abroad; an active policy designed to make sanity prevail in international economic relations is the third. The fulfilment of the first condition is entirely within Britain's power, to the fulfilment of the second and third she can still contribute much

Introduction to

"DOMESTIC ECONOMIC POLICY AND INTERNATIONAL TRADE"

MR. BARNA sets out as the main purposes of domestic economic policy for any democratic country three aims—to increase the national income, to diminish the year to year fluctuations in the national income and to bring about greater equality in its distribution. He argues that any country which is going to participate in world trade, so as to enjoy to the full the benefits of the international division of labour, is faced immediately with the problem of reconciling these domestic purposes with the risk of economic association with other economies. He argues that in fact the pursuit of these three aims of economic policy at home are dependent upon their pursuit and achievement all over the world; that internal and external aims can conflict only if we take a short-sighted view. But just as full employment, a high standard of living, and greater equality, do not emerge spontaneously in economic affairs at home so their achievement internationally calls equally for foresight, planning, and the establishment of a set of rules and practices. These rules, however, must be laid down by general consent and we cannot expect any particular country to agree to a particular set of rules if these are more damaging to that country than other arrangements would be. It has been assumed too easily in the past that what is good for the economically most powerful nations in the world is necessarily and automatically good for all other countries.

The nineteenth century had a set of rules which for the most part worked well. They were based upon the Gold Standard and upon a situation where Britain was constantly able and willing to export capital to the rest of the world; where the movement of labour from country to country was almost entirely unhampered, and where Britain was prepared to accept other people's exports without restriction.

After 1914, however, Britain ceased to be the world's economic leader and the behaviour of her successors bore little relation to

the rules of the nineteenth century. Today Britain's domestic policy of full employment and higher living standards are dependent on stability in the United States. Almost all the rest of the world is almost equally dependent on the world's new economic leader. If that stability is not forthcoming then many countries will have to choose between stability and higher living standards. Mr. Barna argues, however, that they can be reconciled, provided a new set of rules are worked out. In this new set of rules the first necessity is that stable and full employment should be pursued and achieved by every country in the world; the second is that more powerful economic countries should set themselves consciously to raise the standard of living in the so-called backward countries—i.e., primarily the overcrowded agricultural countries, the Balkans, the Middle East and Latin America—by the planned location of industry on a worldwide basis. He is convinced that the domestic economic aims of present-day Britain are not necessarily incompatible with the full enjoyment and benefits of international trade.

Chapter III

DOMESTIC ECONOMIC POLICY AND INTERNATIONAL TRADE

By T. Barna

IN 1932 unemployment was heavy in the village of Wörgl in Tyrol, Austria. A railway worker, Herr Unterguggenberger, who was a follower of monetary theories then universally condemned, was elected burgomaster of the village. He initiated public works which soon employed 1,500 of the 4,300 inhabitants of the village. These workers were taken off the dole and paid by I.O.U.s issued by the village. These notes were accepted in the village, cautiously at first but later without hesitation, in exchange for food, fuel and other commodities. The shopkeepers bought further supplies with these notes and in this way they gave employment to an additional number of workers. Very soon the village was fairly prosperous in spite of the fact that unemployment in the country, and indeed in the world, remained extremely high. However, the scheme was never properly tested. Although it ran smoothly for a year the federal government of Austria intervened and brought the arrangements to an end on the grounds that the village was interfering with its sole right of issuing notes.

During the same year unemployment was heavier than ever before in Wales. The town of Merthyr Tydfil was particularly affected; there, not less than seven out of ten workers were unemployed. Yet nothing was done about creating jobs for these workers. Had the Welsh town adopted the Tyrolean example, could it have cured unemployment within its borders? The council of Merthyr Tydfil could have initiated public works, they could have employed the unemployed inhabitants and paid them with I.O.U.s issued by the town. These notes would have been spent on some fuel produced locally, thus giving employment to a few miners. But most of the notes would have been spent on food brought in from other parts of the country or to a large extent from other countries, on clothing also brought in from elsewhere, on tobacco, beer, and hundreds of other things almost all of which had to be brought in from distant parts of the country or of the world. But such a scheme would have been doomed to early failure. People in other parts of the country

or in other countries did not want to buy coal, the only product of Merthyr Tydfil. They did not want coal because iron foundries were closed, railways were working below capacity, and the unemployed could often not afford coal. Had people supplying Merthyr Tydfil with food, clothing, beer and tobacco accepted the notes issued by the town, very soon they would have appeared in Merthyr Tydfil and demanded Bank of England notes in exchange for the I.O.U.s. And this would have driven the town into bankruptcy and wrecked the scheme.

This simple example clearly demonstrates the difficulties imposed on domestic policy by external trade. The Tyrolean village of Worgl was by its geographical situation to some extent isolated from the rest of the country and even more so from the rest of the world. Its economy was to a large extent self-sufficient, that is, most of the needs of its inhabitants could be supplied by local production. Hence any local issue of I.O.U.s was spent in the locality and remained circulating in that locality. There was no question of the I.O.U.s migrating into the outside world and the inhabitants of the outside world presenting them with a demand for hard cash.

The economy of Merthyr Tydfil was entirely different. It was based on the mining of coal to be sent down the valley to Cardiff and from there shipped to all parts of the world. In exchange the inhabitants received food and other commodities from all parts of the world sent up the valley from Cardiff. And so a sudden lapse in the demand for coal, entirely outside their control, left them with nothing to exchange for food, clothing, beer or tobacco.

If the position of the inhabitants of Merthyr Tydfil is so vulnerable, so much at the mercy of forces outside their control, why did not they change the nature of their economy and produce locally for their needs? In the answer to this question lies the essence of the whole problem. The local countryside was unable to provide for all the needs of the inhabitants. The Welsh hills would not even have provided their food.

But even if all the minimum needs of a modern industrial locality could be satisfied by local production, this would entail a very low standard of living. The rise in standards of living in modern times has become possible only by industrial and occupational, and to a large extent geographical, specialisation. Indeed, without this specialisation (one area producing, for instance, mainly fuel and another mainly food) Merthyr Tydfil would have never grown beyond the size of a small village. However, while specialisation has the advantage of high living standards, it brings insecurity in its wake; a specialised economy is too much dependent on complex

economic relationships which from time to time break down giving rise to crises and unemployment.

The demand of the modern world is for both high living standards and for stability, and it remains to be investigated how far a policy can be devised which will guarantee both.

The Nature of Economic Policy

The heavy unemployment of the 'thirties has led us to concentrate on problems of unemployment, on ways and means of devising a policy to combat unemployment, and on the assumption of responsibility by government for the provision of a high and stable level of employment. We now believe that we have knowledge of more than one way in which mass unemployment can be solved in a manner acceptable in a free society, and we also believe that governments, in Britain, the United States, or other countries, will do their best to apply that knowledge. We must not, however, lose sight of other aims of economic policy, apart from the provision of full employment. In a modern democratic community the general aim of economic policy can be defined as the securing of increasing benefits to an increasing number. Such a policy must needs have a threefold aim which is, to follow the words of Professor Pigou, to increase the national income, to diminish year to year fluctuations in the national income, and to bring about greater equality in its distribution.

An economic policy with these aims has both internal and external applications. In its internal applications alone, these three aims are no longer regarded as conflicting. The first aim is identical with increasing the productivity of labour, that is, securing an increasing output per man-hour by technical research, the application of existing inventions, a more ample supply of capital, the training of labour and better organisation. The second aim is that of continuous full employment. The basic causes of unemployment are now, following the penetrating analysis of Lord Keynes ten years ago, generally recognised by economists, and the views of those who for centuries were regarded as heretics and cranks are now accepted as orthodox. In a policy of full employment properly administered there is nothing which would contradict the aims of increasing the productivity of labour. It is true that some maintain that unemployment is necessary to make workers work, but this view is not borne out by the facts, and would in any case be tantamount to a confession of the failure of the whole system of economic incentives. On the other hand it is more likely that a state of full employment will give rise to a greater volume of labour-saving inventions and will, therefore, increase rather than retard the rate of progress of productivity. Historic evidence seems to support the latter view, and we can see many an

example to prove the proverb "necessity is the mother of invention".

Neither is it maintained any longer that economic inequality is necessary for economic progress. On the contrary, the opposite can be easily demonstrated. By eliminating the main causes of economic inequality, the inequality in educational opportunities and in the inheritance and ownership of capital, we are likely to gain a new class of scientists, administrators and members of the professions who, by becoming leaders of industry, would greatly enhance its progress. Moreover, the more equal distribution of incomes is likely to have more indirect and far-reaching influence by increasing the health and thus the efficiency of the people all round.

Lastly, it is now generally accepted that a more equal distribution of incomes will help in achieving the aims of a full employment policy. Less inequality means a higher propensity to consume, a greater volume of outlay directed towards giving employment. Thus the second and third aims of economic policy are consistent. In fact, through its beneficial effects on employment, greater equality will speed up rather than retard the rate of capital accumulation. It was previously maintained that inequality is necessary for high savings; but it was forgotten that the desire to save too much gave rise to unemployment and not to capital accumulation.

The threefold aims of economic policy have external as well as internal applications. Rising standards of living must be not only achieved but guaranteed against external aggression, whether military or economic, hence a proportion of the national income must be devoted to defence. But the policies of governments should be such as to bring about an international organisation which would reduce that proportion necessary for defence expenditure. It is increasingly recognised that such an organisation must take responsibility for raising living standards all over the world, and it is admitted that in the long run rising living standards at home must be supported by rising living standards throughout the world.

At the same time it is recognised that instability at home is closely bound up with fluctuations abroad. Hence the domestic economic policy of any country must aim at reducing economic fluctuations all over the world or, failing that, reducing its dependence upon them.

In short, a democratic policy is bound to follow the same three principles abroad which it set out to follow at home, namely the increase of world living standards all round, the elimination of economic fluctuations, and the levelling up of standards between rich and poor nations. It is in a wealthy country's own interest to follow these principles once it is admitted that the root causes of international friction lie to some extent in poverty, unemployment and international economic inequality, and therefore a direct attack

on these causes must be the best and cheapest long-run defence policy. But ethical, as against material, considerations will lead to the same policy.

The external and internal aims of economic policy can be in conflict only if we take a short-run (or perhaps short-sighted) view. But, if what was said above is true, no such conflict exists on a long view.

If the principles of economic policy are accepted, as they seem to have been accepted in progressive democratic countries, certain rules relating to international trade can be evolved from them. While the acceptance of the above principles is largely a political decision, the evolution of a set of rules based upon these principles is largely a technical economic matter. Nevertheless, one cannot expect general agreement even on technical matters, especially when they are of such complexity. Decision is particularly difficult when the rules evolved from one of the principles might contradict those evolved from another.

Economic Policy and the Rôle of External Trade

International trade is necessary and desirable only to the extent that it fits into the requirements of general economic policy. International trade consists in exchanging part of the produce of one country, its exports, for the produce of other countries, its imports. To produce the imported goods at home would in some cases be impossible, in other cases it would be possible but only at the expense of using manpower in excess of that required to produce exports of equivalent value. In other words, international trade is equivalent to putting a larger manpower at the disposal of any country engaged in it. Its effect is exactly the same as that of technical progress; both are capable of increasing the standard of living.

International trade which fulfils this basic requirement, namely that it increases the standard of living, is desirable, but only to the extent to which it does fulfil these requirements. International trade thus understood does not mean concentration of production in the most efficient country, that is, the country producing a given commodity with the greatest output per man-hour. Such a condition would imply that some countries would only export, while others would only import and be unable to export. This is clearly an impossible solution since exports must pay for imports, at any rate in the long run. But neither does international trade, correctly understood, mean, as it was meant to mean by free traders, buying in the cheapest market and selling in the dearest. In its ideal sense international trade involves the export of commodities in which one country is *comparatively* efficient, and the import of those in which the country is *comparatively* inefficient.

Britain is more efficient in the production of wireless sets and also in cotton textiles than India, that is output per man-hour is higher in Britain in both cases. But the superiority of Britain is greater in wireless sets than in cotton textiles. The reason for that is that the production of wireless sets is a complicated matter, but the production of the simpler kinds of textiles is comparatively easy once the machines have been obtained from Britain or the United States. In India more workers are needed to mind a machine than in Lancashire, but this difference would be even greater in the case of wireless sets. In this case it pays both countries to engage in international trade, Britain concentrating on wireless sets and India on cotton textiles. The amount of manpower producing the wireless sets exported from Britain is less than the amount of manpower which would have been required to produce the amount of cotton textiles received in exchange from India; hence Britain gains just as she would have gained by having a larger labour force to supply her needs. From the point of view of India, and her point of view is equally important, the amount of manpower required for the production of cotton exports is less than the amount of manpower which would have been required to produce the amount of wireless sets received in exchange. Hence both countries gain from the transaction, and in arguing the desirability of international trade it is necessary to demonstrate that both so gain.

But this is not the whole story. By engaging in international trade it is possible to achieve a greater degree of specialisation of industry, in our example wireless in Britain and cotton in India, and thus increase the efficiency of both these industries through economies implicit in large-scale production. The subsequent reductions in costs of production are a further gain to both parties concerned.

The above example of Britain and India still remains a hypothetical illustration. Although the conditions of international trade as described in this example are present, India does not export textiles to Britain for a number of historical reasons, and international trade according to ideal conditions will take place, as will be demonstrated later, only if these chance elements are overcome by deliberate planning.

The theory of comparative costs as formulated by the classical economists, and this is the principle just expounded, was an admirable theory as far as it went. But the assumption of the nineteenth century that "costs" in this sense can be measured by private money costs was a fallacious one. What we have to measure are some sort of "real costs", and in our imperfect world real costs are by no means identical to money costs, much less so to private money costs.

In a perfect world, assumed by nineteenth century and some of our contemporary economists, there is no monopoly and no imperfect

competition, labour moves freely from one industry to another, and from one occupation to another, there is no unemployment, no taxation, and there are no legal restraints. In such a world private money costs do measure social real costs, and then it is wise to buy in the cheapest market and sell in the dearest, and open up to complete free trade. But none of these conditions are present in the world as we see it, and the lack of each of these conditions requires that the results of what would otherwise be unrestricted free trade should be corrected by deliberate intervention.

Now private money costs are easily measurable; they are equivalent to the market price of the commodity in a free market, and we are thus tempted to use them as the measure for something they do not represent. Real costs are difficult to measure, but this is what we have to measure, however imperfectly. A country uses three factors of production, natural resources, capital and labour. Natural resources have no real costs from the point of view of a country, in the sense that they are there whether used or not; but the alternative uses of natural resources must be considered. Capital itself is produced by labour and its amount can therefore be expressed in terms of man-hours. But a product obtained through using "capitalistic" methods of production involves a certain amount of waiting from the time the production of a certain machine starts until the machine turns out the final product. The cost of "waiting" can be measured by the greater value people place on something obtainable at the present as against the same thing not obtainable until some time in the future. To sum up, a certain amount of natural resources, labour, and "waiting" is capable of producing alternative outputs. One has to consider which of these alternatives is preferable. In our particular case we have to consider whether certain resources should be used for home production or production for exports to be exchanged for imports.

Further, there are differences between private and social costs. For instance, a certain commodity might be imported because there is no skilled labour available for its production and "it does not pay" to train labour. It might well be the case that it does not pay for any individual employer to train labour because the worker, having obtained his training, might leave for another employer; but it would still pay society to train him. Here private costs are greater than social costs. But the alternative case might also occur when social costs exceed private costs. For instance, it might be possible to export agricultural produce cheaply as a result of private landowners exhausting the power of the soil, and indirectly causing damage to their neighbours and society. In this case had all social costs been taken into account, it is possible that there could have been no export of agricultural produce at all.

If all the considerations mentioned here are taken into account and international trade is based on these considerations, then international trade is doubtless highly desirable. Some of the factors involved are difficult to measure when endeavouring to evolve some pattern of trade, but it must be remembered that even approximate measurement might be preferable to leaving trade to the chance play of private money costs.

The Operation of Uncontrolled External Trade

In the course of history governments have always, with few exceptions, interfered with the flow of external trade for various reasons. There were two main objects of interference: first, an attempt was made to correct the mechanism of the free pricing system in accordance with the realities of the situation (because, although the science of economics is of fairly modern origin, the possible ill effects of uncontrolled trade have always been instinctively felt) and secondly, to devise measures by which other countries could be exploited.

Our aim must be to devise correctives to the pricing mechanism which would bring about a desirable flow of international trade while at the same time checking attempts by any particular country to exploit other countries. This is why the general rules of international trade must be laid down by common consent and it must be required that individual countries should adhere to these rules; on the other hand we cannot expect any particular country to agree to a particular set of rules if these are more damaging to that country than alternative arrangements would be.

But we may pause here and ask whether free trade is the alternative to a set of rules. Free trade itself is equivalent to the acceptance of a set of rules, namely that there is no interference with the uncontrolled operation of the private pricing system and that one should always buy in the cheapest market and sell in the dearest. It is also implied that rates of foreign exchange should be fixed, a system associated with the gold standard. But it has not been demonstrated that free trade is beneficial at all times to all countries participating in it.

Free trade was the system generally adopted from the middle of the nineteenth century onwards. The gradual release from restrictions started in the early part of the nineteenth century in England, and other countries soon followed suit. But by the last quarter of the century some countries began to adopt protection; free trade among the main trading nations did not last twenty years, and from then onwards protection and various forms of control of trade grew until the present day. Britain herself made exceptions to free trade after World War I, and abandoned the principle of free trade altogether in 1932.

Hand in hand with the lifting of restrictions on trade, went the rising acceptance of the gold standard as the international monetary system. Up to 1914 the operation of the gold standard worked smoothly. But the system came to a sudden end in 1914 and, although it was partially restored after World War I, it finally broke down during the 'thirties. The gold standard and free trade were historically as well as logically connected.

It has been said that maritime law, in peace and in war, was always the law of the dominant sea power; it was a law suited to her interests, a law which she could enforce at will. It would not be far from being true to say that trading systems are similarly determined by the interests of the economically most powerful nations. That brief period of history, seeing the operation of unrestricted free trade and the gold standard, can be explained in similar terms. Britain was the dominant industrial power of the era and, it has been shown by experts, the maximum flow of unrestricted trade suited her interests at the time. One can note the striking change in Manchester: protectionist so long as the American colonies supplied her with cotton, turned free trader as soon as these colonies became independent. England had a running start in the race of industrialisation and hence the more she could export and the faster, before other countries could catch up to her, the better.

At the same time international finance was concentrated at London, helping and promoting the establishment of the system. The world became one market. The gold standard made all currencies freely convertible at fixed rates of exchange; hence the whole world was virtually on the same currency, for better or worse. Free trade enabled one to buy in the cheapest market and sell in the dearest, irrespective of national frontiers. At the same time technical improvements in transport made the world smaller and smaller. The rôle of the State was confined to ensuring the safety of trade.

In such a system there is not necessarily any reason why undeveloped countries should develop, why differences between rich and poor countries should diminish. It is just as likely, and this has happened, that the industries of the dominant power are able by competition to prevent the emergence of industries in the weaker countries, and thereby widen the gap between rich and poor countries instead of narrowing it. For backward countries, unless they are put into colonial status, derive advantage from trade only if differences in living standards over the world narrow and not widen.

Owing to the coincidence of a number of favourable circumstances this system operated successfully in the fifty years or so before 1914. But there were important underlying factors which must be remembered. There was a great increase in Western European populations

and virtually free migration to undeveloped lands. England had a continuous export surplus since she was "the workshop of the world" and at the same time the undeveloped lands had yet nothing to offer her. Since England was willing to make long-term investments in these countries the system operated smoothly. In this way Australia, New Zealand and the Argentine were developed. London could grant a loan to the Argentine for, say, the making of a railway, and it was pretty certain that the proceeds of that loan would be spent in England buying engines, waggons, rails, and other equipment; so the system could not go wrong.

And England continued to play the game well when these countries were developed. Australia, New Zealand or the Argentine could pay interest on British investments, and eventually repay the capital, only if they could export to Britain more than their imports. Britain permitted the development of an import surplus, and permitted the readjustment of her economy so as to allow for the unrestricted entry of the produce of the new countries. It is true that in this process English agriculture slipped into a long depression, but the international system continued to operate smoothly until 1914.

No doubt while this system lasted it was on the whole successful. It meant for England the chaining of the Malthusian devil, and made it possible to maintain her rapidly rising population at an increasing standard of life, fed on food and clothed in wool and cotton which could not have been produced in this island. But it also meant the opening up of the world and the development of vast areas from pioneer settlements into nations. It made possible for some oversea countries the enjoyment of high living standards as the result of specialised production, and saved them the sacrifices involved in a policy of self-sufficiency. But since about 1870 the emergence of Germany and the United States as major industrial powers, challenging and surpassing the supremacy of Britain, fundamentally changed the situation. Since World War I the United States has become the most powerful economic unit of the world and her behaviour has determined the system of world trade.

The United States in the World Economy

The United States pursued a policy different from that of Britain in earlier years. She had an export surplus, substantial in most years, but she was unwilling to engage in long term investment. She gave credit to the countries buying her exports and demanded interest in dollars; but she would not import from those countries and therefore denied them the only source of dollars. A system like this was bound to break down and broke down with a crash after 1929.

At the same time the economy of the United States was a very

unstable economy. The ups and downs in her economy were sharper than those in other countries. Her industrial production amounted to one half of the total world production and, therefore, a sharp fall in her output caused reactions all over the world. Raw material prices fell even more sharply and impoverished large backward countries supplying them. The value of United States imports fell even more sharply than her output, foreign lending came to a standstill, and the shortage of dollars caused a world crisis. In 1932 less than one-third of the dollars were available for the world to purchase American goods than in 1929. In addition the rigidity of the gold standard made adjustment difficult in 1929 and during the crisis following it; by the time the next downturn came in the United States in 1937, the rest of the world was to some extent isolated behind tariff barriers and restrictive currency practices.

The United States is a powerful economy but a very unstable one. Its power to produce is almost unlimited but its power to consume is not; the large differences in wealth within her borders, between individuals or between States, all make for instability. The easiest way of overcoming her difficulties is to create an export surplus. But this can take two forms: it can consist either of an export surplus created in the slump, which is identical to exporting unemployment to the already harrassed countries of the world, or of an export surplus to develop poorer countries. But the latter kind of export surplus must be a continuous planned flow over a number of years, and thus it cannot be used to counteract the effect of booms and slumps within the United States, moreover, she must be prepared to accept goods from her debtor countries in payment of interest, which she has hitherto been unwilling to do.

The pressing problem of the present and the future is the behaviour of the United States in the world economy. We know that her economists and administration realise the nature of the problem as well as we do. But will they be able to solve the problem? The possible lines of solution may be known, but will it be possible to overcome the opposition of powerful vested interests? The achievement of stability in the United States and the assumption of her full rôle as the largest creditor nation in the world requires almost a revolution within her society: a re-distribution of wealth on a vast scale, the development of the poorer States and a fight against powerful interests preventing foreign imports entering the country.

The United States is bent on assuming the leadership of world trade on principles not dissimilar to those of nineteenth century England. But even if her economy is able to achieve stability, and we hope that statesmanship will go a long way towards achieving this, will that system be beneficial to the rest of the world? Will it

level up differences in living standards between the United States and backward countries which were widening and not narrowing in the past? Or are there other alternatives which will fulfil the desires and aspirations of other countries more than unrestricted trade under American leadership?

The Incompatibility of Domestic Economic Policy and Uncontrolled Trade

It is by now evident that the desires and aspirations of a country as expressed by the domestic policy of its government are not necessarily compatible with uncontrolled international trade. It is best not to generalise but examine each requirement of domestic policy, an increase in productivity, full employment, and a more equal distribution of incomes, separately and then decide on the trade policy which will be in harmony with domestic policy. It is best to start by examining the requirements of that part of the policy which attempts to achieve greater economic equality, because this is the easiest problem and it is better to have it out of the way. Secondly, there are the requirements of a full employment policy, that is, the requirements of stability. But the most difficult problems are raised by the requirements of that part of the policy which attempts to raise living standards by raising the productivity of labour; the discussion of this is left to the last.

(a) *Inequality of Income and International Trade*

A government bent on achieving a greater degree of equality of incomes than the one which exists in a given country can hardly be influenced by the existence or non-existence of international trade. There are arguments both ways. The existence of international trade might make it more difficult to operate measures bringing about greater equality, such as taxation or price control. High taxation of the rich is more difficult as it might lead to a flight of capital, price control is again more difficult if the sellers of a commodity are outside the country. But a determined government should easily overcome these objections.

On the other hand the existence of international trade makes the formation of monopolies more difficult. Tendencies towards monopoly within any country are usually checked by foreign competition, if such competition is allowed to develop. Again, a government determined to tackle monopolies should be able to tackle the problem irrespective of international trade. On the whole it can be concluded that a policy towards more equal distribution of incomes need not be much influenced by the existence of international trade, nor need it be taken into account when establishing a set of rules for the conduct of international trade.

This is not to say that the distribution of incomes will not influence the volume or composition of international trade. If the proportion of income spent on imports by rich and poor are different, the demand for imports will change when incomes are redistributed from rich to poor. In this country it is difficult to say in which direction total demand for imports would change, if it changes at all. No quantitative studies have been made as to the consumption of imports by rich and poor. The poor might spend a higher proportion of their income on imported foodstuffs and similar things, the rich on imported wines, luxury foods or travel abroad; it is very difficult to say what would happen on the balance.

It is a different matter to consider changes in the composition of imports. If there is a policy of "first things first", it goes without saying that such a policy would be applied to imports as well as home production. If, for instance, the consumption of luxury articles is discouraged by, say, high purchase tax, similar restrictions are to be applied to imports too. It seems that on the whole a redistribution of incomes would cause a change in the constitution of imports from luxury articles to necessities, from wines to beer, from grapes to oranges and apples, and from Packards to Morris Eights. It seems also that, if anything, there might be some switch-over from imports to home-produced goods. This is especially so if the redistribution of incomes is encouraged in certain directions, to provide fresh vegetables and milk, or better houses, all of which use little imported goods.

But, when planning our export programme, we must also reckon with other countries following similar policies. The inequality of purchasing power between rich and poor is much wider in the so-called backward countries than in Western Europe, and therefore a good proportion of the imports of these countries goes to satisfy the luxury consumption of the rich. If there is a planned development of these countries, they will have to use their meagre resources to import goods necessary for development and cut out luxury imports. This might imply important changes in the planning of British exports. It might mean a switch-over from luxury motor-cars and aeroplanes to cheap tractors and bicycles, or from Savile Row suits to textile machinery.

(b) *Full Employment and International Trade*

A policy of full employment, or high and stable level of employment, causes more serious complications in international trade relations. The essence of a full employment policy is that national outlay is adjusted to the manpower position of the country. Expenditure by private individuals on consumption, by business firms on

investment, or expenditure by the Government, are partly on goods and services produced at home and partly on imports. Expenditure on goods and services produced at home gives rise to employment at home, but expenditure on imports gives rise to employment abroad. If total national outlay, by individuals, business firms, and the Government, is kept stable, employment in industries producing for home consumption will also be kept stable, and imports will also remain stable. There can, however, be no control exercised by the home Government over exports and thus over employment in the export industries. Control over exports would be desirable from two different points of view. In the first place instability in exporting industries causes unemployment in these industries, and secondly exports are necessary to pay for imports, or at any rate to pay for imports in so far as imports are not paid for by income from foreign investments or by long-term borrowing abroad as a deliberate policy. The Government at home has no control over exports because exports depend on demand in foreign countries.

Now let us suppose that there is a slump abroad and the Government attempts to maintain full employment at home. In a *laisser-faire* system a slump abroad causes immediate unemployment in the export industries. Since the purchasing power of workers in the export industries is cut, industries producing for home consumption will also suffer, and secondary unemployment will result. A government pursuing a full employment policy energetically will be able to stop all secondary unemployment by counteracting the effect of unemployment in the export industries (by means of high unemployment benefits, for instance). But it can do little about putting the unemployed to work in the export industries for the simple reason that the commodities produced by those industries are usually not demanded at home. For instance, when foreign demand for British-made cotton shirts falls off, it is difficult to make people at home buy two shirts instead of one. To some extent substitute employment will be available, but we must face the fact that fluctuating conditions of boom and slump abroad involve fluctuating employment in the export industries. This unemployment cannot be eliminated, unless the workers in export industries are put to public works when the slump starts abroad, and then go back into the export industries when conditions improve. But this solution is impracticable as it would involve, for instance, starting a road in the slump and leaving it unfinished in the boom.

Let us now turn to the other aspect of the story. A slump abroad causes a fall in exports, but under a full employment policy at home imports would remain at their former level. This will result in an adverse balance of payments, if formerly the balance of payments

was zero. Since it would be impossible to borrow in foreign countries just undergoing a slump, liquid resources (foreign exchange and gold) will flow out of the country and soon a crisis will set in.

In the crisis two courses of action are open to the country pursuing a policy of full employment. It can devaluate its currency, or restrict its imports. A currency devaluation might be quite useless since the increase in demand for exports might not balance the fall in their price; in the case of British exports in particular it is likely that the total value of exports after devaluation would be less than before it. The only alternative remains. to restrict imports by tariffs or quotas.

All these problems did not arise under a system of uncontrolled trade coupled with the operation of the gold standard. The operation of this system was fairly simple. If a slump developed abroad, gold started to move out of the country which was still prosperous. The banks soon took action by raising interest rates and restricting credit by other means also. The result was unemployment at home. As the number of unemployed rose, less was spent on imports, until exports and imports were in balance again. There was a self-adjusting mechanism at work, but it was the *level of employment and incomes* which were adjusted until exports and imports, and the flow of gold, were in the balance again.

Economic stability requires stability both in the level of employment and in the balance of payments. But, and this is the dilemma, if employment is kept stable at home and not in foreign countries, import restrictions must be imposed in order to balance the balance of payments. If, however, import restrictions are imposed foreign countries can export even less and thus sink into a greater depression. This will soon lead to retaliatory adoption of tariffs on their part, with a "beggar my neighbour policy" following, and ever rising tariffs causing more and more unemployment. To put up a tariff in order to save oneself from unemployment is equivalent to exporting unemployment. These measures, adopted in the nineteen-thirties, caused the maze of economic restrictions and attempts at self-sufficiency at the expense of rising living standards and international good will.

There is no reason why the latter kind of problems should not be overcome. If imports of a country pursuing full employment are expected to remain stable but her exports are expected to fluctuate because of fluctuations in foreign demand, why not achieve a level of exports which will pay for imports over a cycle of fluctuations as a whole? That is, the country in question can plan to have an export surplus in the boom and a deficit in the slump. To this end the establishment of an international monetary fund was proposed.

In the boom a country could deposit its surplus in the international bank and in the slump withdraw it. In theory the problem could perhaps be solved, but whether the practical proposals for the operation of an international fund are sufficient, whether the scale of operations envisaged for the fund is large enough, is another matter. The important thing is that countries not pursuing a full employment policy should play the game and, since they expect to have an export surplus in the slump, they should adjust their economy to an import surplus in the boom.

But even if the financial problems connected with fluctuations abroad have been overcome, and it remains to be seen whether in fact they have been overcome, employment in the export industries will still fluctuate. We are then confronted with a broad question: international trade enables us to increase our standard of living; on the other hand fluctuations in employment in the export industries waste some of our resources which could be in the long run employed elsewhere. Shall we have less international trade and less loss in our resources due to unemployment, or more trade and a greater loss? Surely, there must be a limit beyond which any additional gain from a greater volume of international trade will outweigh the loss of resources due to fluctuating employment in the export industries, and this limit can be calculated. It is certain that the desirable level of international trade arrived at by this calculation will be lower than the level achieved in an uncontrolled market. The reason for this is that in an uncontrolled market the exporter reckons as his cost the wages of his workers while they are employed by him; correctly, from the social point of view, he should take into account also what would be the wages of the worker while he is stood off as unemployed. In other words, the social cost of exports is higher than their private cost, and there must be items of exports which it does pay the private trader to undertake even if by doing so the country incurs a loss. It is only if similar policies are adopted abroad that a full employment policy at home does not cause difficulties. This is particularly so in Britain's case. This country has a large propensity to import; that is, the demand for imports increases rapidly as employment and incomes increase. The additional employment of 1,000,000 workers would at the present level of prices add some £500 million to the national income. Of this, an additional £75 million would be spent on imports if the price of imports remained unchanged. But the prices of imports are sensitive and an increase in British demand causes an increase in prices, and therefore the increase in the value of imports would be even larger. It would not be far from wrong to say that the value of imports under full employment would cost £200 million more than imports associated

with the 1938 level of employment. Adding to this the loss of our income from foreign investments, the need for repaying our war-time debt to other countries, and the need to develop backward countries, it is clear that it would be impossible to achieve a level of exports sufficient to pay for all our imports if other countries are in a depression. In other words, unless foreign countries are prosperous it would be very difficult, indeed almost impossible, to achieve a balance in Britain's trade either in the short run or in the long run, unless the level of imports is drastically reduced and the British economy correspondingly readjusted.

If there is full employment in Britain, the stability of the rest of the world depends almost exclusively on stability in the United States. If she succeeds in achieving that stability all is well, if not we have to revise our doctrines and retrench our economy.

Full employment in all countries is, of course, set out as a common aim in international monetary agreements. And in the United States in particular as much hard thinking has been done, as in this country, over ways and means to achieve a high and stable level of employment. The will and determination is there, but it would be rash to assume beforehand that they will succeed in an undertaking not tried before. It is better not to prejudge the issue but await the outcome of the attempt. In any case the trial of strength in the United States will come sooner than the emergence of long run problems in this country, so we can wait the outcome of that test in the United States and adjust our trade policies accordingly. It seems therefore somewhat out of place to discuss the possibilities of mass unemployment abroad, when this might not happen at all; it might be better to turn to more important problems of international trade.

But before doing so, let us make clear that the condition of stable employment must be among the rules of international trade; if this condition cannot be fulfilled by some countries, then others must be allowed to take defensive measures. The most important rule must be that these defensive measures should be taken in an orderly manner, and not individually and haphazardly as in the 'thirties; countries pursuing the same policy, and managing to maintain employment, should continue to benefit from the flow of trade between themselves, and the disease of unemployment should be confined by isolation to the countries responsible for its emergence. This involves discrimination; instead of putting up tariffs and quotas against all countries, restrictive measures should be adopted only against imports from the slump country. By this means the slump can be confined to its origin and, in the end, the general level of defensive restrictions on trade will be less than it would be otherwise.

(c) *Productivity and International Trade*

Let us assume that stability of employment has been achieved throughout the world. What are then the rules of international trade if the standard of living of a country is to be raised? International trade, as has been shown earlier, can promote a higher standard of living than would result from an absence of international trade; but it is possible that the amount of international trade which would secure the highest standard of living is different from the amount of trade which takes place under a free pricing mechanism.

In the first place private and social costs differ. It is possible that in a country industries cannot be established because there are no railways. On the other hand there are no railways because there are no industries. It might be the case that it will pay the State to step in to build the railways, and in due course industries will emerge and the railway itself will pay. Here we have a case where without interference industrial products would be imported and the country remain a backward country; while with planning, the standard of living could be raised and home-produced goods could compete against imports. But it might also happen that a railway might foster greater specialisation of production and thus cause more trade.

Next there is the case where industries could be set up and would in the long run become sufficiently efficient to withstand foreign competition after the skill in production has been acquired, markets built up, and so on. It is, however, impossible for any employer to start the industry because no one would be willing to shoulder the initial losses against foreign competitors, which might be heavy and might last for a number of years. Here it is in the interest of the country in question to give protection to its infant industries until they grow up; quite a number of American and German industries grew up in this way and in the end more than held their own against their former competitors.

Then there is the case of an undeveloped country with no industries. If one set up, say, a shoe factory there would be no factories to prepare the raw material, none where the by-products could be worked up, and there would be no purchasing power to buy the products of the factory. The workers of the shoe factory would be better off, but they could not consume the whole product of the factory. If, however, a number of industries are set up and developed *at the same time* these objections will disappear. There will be complementary industries supplying each other with material and working up by-products. At the same time sufficient purchasing power has been created. Workers in the shoe, textile, wireless, motor-car, paper, soap and other factories are unable to consume the product of their own factory; but in the aggregate they are able to consume the

aggregate product of the new industries. Here we have a case where without planning the country would never have become industrialised. By planning its trade a chain of industries could be profitably set up and the standard of living raised.

All the above arguments were based on the existence of some imperfection in the pricing mechanism, and the fact that when this imperfection is overcome by Government interference new relations of international trade are created which will then stand on their own. In the above three cases, after the railway has been built, after the infant industry has been protected for a sufficiently long period, or after a series of complementary industries have been set up, it might be assumed that trade can be left to the influence of market price. In other words, it can be assumed that the newly established industries will be able to compete in price with foreign industries. There is, however, a more powerful argument which does not imply this assumption.

Taking the world as a whole, agriculture is exploited by industry. Output per head in terms of value, allowing for the cost of capital and so on, is very much higher in industry than in agriculture. If we take the United States, in 1939 the value of output per head in industry was three times that in agriculture. This preponderance of industry might be even more pronounced in countries like Rumania, Hungary, or Poland. The reasons are that agriculture on the whole is an overcrowded industry. The industrialisation of the world has not gone far enough or fast enough, and there are millions engaged in agriculture who could be withdrawn from that industry without any noticeable effect on total output. (This excess is estimated for Eastern and South-Eastern Europe at about 25 per cent. of the total population of those countries.) In the second place, industry is monopolistic whilst agriculture is a competitive industry. There are trusts, combinations, patents, price fixing arrangements, trade marking, product differentiation, and a host of other devices whereby industry will stay monopolistic. It is able to do so because the number of firms is relatively small, dominated by a few large firms, and they are producing a very large number of different commodities. The position of agriculture is just the reverse. The number of "firms" is very large, the commodities produced are fairly standardised and are close substitutes for each other, for instance, wheat produced anywhere in the world is the same commodity, and it is impossible to raise the price of wheat without causing a substitution of barley or other grains. In a slump industry is able at once to dismiss workers, cut production, and thus stop the fall in prices; on the other hand a fall in prices in agriculture makes the peasant cultivators poorer, therefore they produce more, and therefore prices fall even further,

making them even poorer. There is no automatic mechanism whereby the exploitation of agriculture can be stopped except by deliberate planning.

The theory of comparative costs expounded by classical economists, as described earlier in this paper, run in terms of real costs. Its validity in terms of money costs can be maintained only if incomes in different industries are the same; that is, if wages in agriculture are equal to those in manufacturing industries, and the rate of profits on invested capital in agriculture is equal to that in industry. This is by no means so. In Rumania wheat is cheaper than in Britain and cotton textiles dearer. Should, therefore, Rumania export wheat to Britain and import cotton textiles? The alternative is to transfer manpower from agriculture to industry. The value of output in industry is so much higher than in agriculture that Rumania becomes better off in spite of the fact that home-produced textiles are, and will remain, more expensive than imported textiles.

Let us assume that the value of annual output of a man in Rumanian agriculture is £100 and in cotton textiles £200, and in British cotton textiles £500, measuring everything at British prices. Wages and profits in Rumanian industry can be so high as to make imported goods cheaper. But in real terms this is the picture: Rumania has to give the output of five men in exchange for that of one Englishman. If these five men are transferred from agriculture to industry the value of their output would become twice as much, equivalent to the output of two Englishmen. By this transfer, therefore, the country will be better off, although if prices are left to themselves industrialisation would have never paid. This argument applies not only to Rumania, but to almost all agricultural countries of the world.

(d) *The External Applications of Domestic Policy and International Trade*

There are left to be considered the special external applications of domestic policy on international trade. First, the requirements of defence must be satisfied. This in almost all cases means less and not more international trade. Certain industries vital to defence are to be maintained as a kind of insurance against war, even if they are uneconomical from a narrower viewpoint. There are all the industries termed "key industries" which became protected in Britain after World War 1. But there is no reason why all these industries, chiefly engaged in the production of essential scientific instruments or war supplies, should not become as efficient as to be economical without reference to the special considerations of defence. In this country, however, there is the special problem that most of our foodstuffs

and raw materials have to be imported from abroad and these imports might be endangered in time of war. There is, therefore, a case for pushing agriculture beyond the point where it would cease to be economical without this consideration.

But, in so far as agriculture is especially extended for reasons of defence, the cost of such a policy in terms of alternatives must be carefully worked out. Before the late war, for instance, it was suggested that a larger expenditure on the navy might give greater security to our food supplies in wartime at a lower cost than subsidies to agriculture. Again, stocks of foodstuffs and raw materials might be built up for an emergency which might prove a cheaper solution of the problem.

There is next the development of backward countries to be considered, especially of the countries for which Britain as a colonial power is responsible. Here it might be wise to develop these countries even against the immediate economic interests of the mother country, and even at the expense of development funds of the nature of outright gifts. There might be weighty political and military reasons for doing so, quite apart from ethical considerations. But it is more than likely that in the long run, it will repay this country to do so in economic terms also, just as it did pay from the national point of view to develop some South American countries by granting them loans even though these loans were never repaid. Here again we have a case where no private enterprise would undertake the development without definite return in view but the Government might do so profitably.

Such a development requires a readjustment in the export programme of Britain. It is a twofold readjustment. First, capital goods have to be exported to the colonial countries, or, in so far as capital goods such as roads and buildings are locally constructed, consumption goods to sustain the workers while engaged in such production. Secondly, allowance must be made for the fact that certain industrial goods will in the future be produced in the colonies and no British exports in these lines will be required.

Productivity and Planning: The Export-Import Programme

A wise government will consider all the points which have been mentioned above. All of these, especially those concerning productivity, require careful calculations or estimates on the basis of which decisions can be made. A wise government will not only make all these decisions but will allow in its calculations for other countries to be guided by similar considerations and to take decisions of a similar nature. The conditions which these decisions must fulfil to be internationally recognised form the set of rules which have to

be laid down by international agreement if international trade is to be conducted in an orderly manner instead of the virtual anarchy of the thirties. Planning a domestic policy is closely bound up with planning international trade.

It is at this juncture that a progressive policy differs from a policy of nationalistic free enterprise. We have seen the planning of international trade under free enterprise at home. It is not out of place, perhaps, to point out the dangers of this procedure, and to demonstrate that most of the advantages of international trade cannot be reaped unless a domestic policy exists for that purpose. In this country, for instance, a number of industries are protected against foreign competition. But no steps were taken, beyond the stage of good intentions, to ensure that the efficiency of these industries is increased. We have a number of industries which were protected by tariffs or international quota agreements and which are further behind their foreign competitors in relative efficiency than they were before.

Britain, therefore, must survey her industries and examine which are the industries where a domestic policy is able to increase productivity to an extent sufficient to make home production cheaper than imports. We must at the same time agree to, and in fact anticipate, the industrialisation of backward countries. We must reckon that in the first instance light industries, especially textile industries, will be established, and we must therefore reckon that British exports in these commodities will fall off. There is nothing in the nature of the cotton industry which should make Britain inherently supreme. Britain seized the leadership in cotton textiles because of historic reasons and she did in fact clothe the world at one time. But there are no reasons why this leadership should have been maintained, and why cotton exports should not altogether disappear. Other countries have acquired the skill of producing textiles or have realised that by planning they can set up their own cotton mills and operate them successfully. In the short run the British industry must be efficient so as to be able to compete with other industrial countries exporting to the importing countries. In the long run it must face up to the fact that there will be no countries requiring cotton imports. We must anticipate that Egypt, for instance, will not only grow cotton but will also manufacture it. Indeed, to help other countries in this process would be even better than to anticipate events.

A Policy for International Trade

There is an even weightier reason why international agreement is desirable on the rules to which trade must conform. It has been shown how any particular country is able to increase its standard of living by attempting deliberate measures to control international

trade. But there is no reason whatever to assume that the area of a country is the optimum area for purposes of planning. The United States, Russia or Germany are large enough to have a diversity of industries within their borders, and therefore these countries could be industrialised without reference to other countries. But the area of all other countries is far too small for this purpose. There are a number of countries in South-Eastern Europe, in the Middle East, in South America, in South-East Asia, each too small as a planning unit, but forming part of a region ideal for the purpose.

Rumania, for instance, could enormously increase her standard of living by industrialisation for the simple reason that she has a large surplus agricultural population. But her standard of living could be increased even further if industrialisation could be planned over a much larger area; then certain industries would be set up in Rumania, others in Poland, and others in Hungary. There would be room for specialisation of industries, allowing for large-scale industries and special skills to develop.

The planning of international trade is, therefore, largely a problem of industrial location. Similar problems emerge within any country. In the past in Britain, for instance, it is clear that free enterprise within the country placed too many industries in certain parts of the country while other parts were impoverished. There was for some time a great advantage of London over, say, Wales or Scotland. There was nothing in the system which would bring about correctives. The only remedy Welshmen or Scotsmen could take was emigration to England which eased the situation but still left their own country comparatively poor. In the international field even this remedy is no longer available.

In Britain now we have control over the location of industry. It is the task of the Government to ensure not only the general prosperity of the country but also the prosperity of each part of it. At the same time the location of industry can be planned rationally on economic and social criteria and not on the basis of vested interests or irrational preferences. In Britain the machinery for this planning exists in Parliament where representatives of different parts of the country meet and reach agreement as to the distribution of new industries.

The same policy needs to be adopted on an international scale. A body must be founded which plans the location of industry within each region formed by countries in similar economic position and following similar lines of policy. Up to now the great powers opposed any such plan, calling it "discrimination" against themselves. But it is clear that the very purpose of development of backward countries is to some extent frustrated if such development takes place piecemeal, country by country. Britain must not only aquiesce in such plans,

but should promote them in areas within her influence. The Middle East, for instance, is one particular area where a joint supply council was successfully functioning during the war but has since been abandoned.

The planned location of industry on an international scale will go a long way towards levelling up differences in the living standards of different countries; it is in fact the only method which can be used as a substitute for free migration, and in terms of human happiness a method probably more efficient. But we must find a long run basis on which international trade between regions can be put; and this basis is found in the substitution of a system of reciprocal imports for the pushing of competitive exports.

Beatrice Webb, in her analysis of the Co-operative Movement, attributed their success to the initiative to organise production and distribution coming from consumers and not from producers. She quickly saw that the same principles can be applied in the international field; in fact, for a number of decades European co-operative societies employed the system of mutual imports "without any toll of profit to the capitalist trader or banker, and without any occasion for either booms or depressions of trade, or for loss or profit in the mercantile sense."

There is hope and there are signs confirming this hope, that Britain might take a lead in implementing the system of reciprocal imports in staple commodities; if staple commodities are looked after, other commodities can look after themselves. There is no reason why Britain should not go to Australia and New Zealand and tell them how much wool will be needed in Britain for the next five years and what price they are willing to pay; the need for wool does not fluctuate from year to year, and it can be quantitatively estimated for a number of years ahead. Also, there is no reason why India should not come to Britain to order tractors she requires in the next five years to develop her agriculture at prices corresponding to costs of production. What multilateral mutual aid was able to achieve in the war to help the common effort against the enemy, multilateral mutual imports should be able to achieve in peace in man's fight against poverty.

"It was this vision", wrote Beatrice Webb, "of a gradually emerging new social order, to be based on the deliberate adjustment of economic faculty and economic desire, and to be embodied in an interlocking dual organisation of democracies of consumers and democracies of producers—voluntary as well as obligatory, and international as well as national—that seemed to me to afford a practicable framework for the future co-operative commonwealth."

Introduction to

"BRETTON WOODS AND WORLD TRADE"

IN the middle of the war and when the outcome was far from clear a determined effort was made by the economists and governments of the United States and Britain to work out machinery which in the post-war world would check that disintegration of the world's economic structure which had dominated the inter-war years. They saw that the choice was between a defeatist return to unplanned international trade, with its bilateral agreements, broken rules, export of unemployment, currency devaluation, barter deals, or to a new set of rules which would make possible the fullest development of the international division of labour for the benefit of every participant. They thought that it would no longer be possible to go on burying their heads in the sand; the inter-war years had been devoted to that process—with disastrous and tragic consequences.

Dr. Barna has shown in the preceding chapter what are the bases for the satisfactory organization of world trade. At Bretton Woods the first steps were laid. Machinery was planned to assist countries whose international accounts were temporarily out of balance to restore equilibrium without suffering severe fluctuations in the value of their currencies, or resorting to unilateral agreements. But the planning went beyond that and additional machinery was devised to facilitate sound international long-term investment and to promote the expansion of world production and trade. The International Bank for Reconstruction and Development was set up side by side with the International Monetary Fund. Dr. Hoeffding describes how these two instruments are organised, how they will operate and the conditions under which they can succeed. In both instruments the principal contribution initially and for some years ahead must come from the United States. Both instruments lead logically to international agreements for commercial policies compatible with free multilateral trading and for domestic policies aimed to secure full productive employment.

Chapter IV

BRETTON WOODS AND WORLD TRADE

By O. Hoeffding

AN intricate system of international agreements for economic co-operation among the nations of the world is at present passing through a critical phase which will decide whether the separate blueprints drafted in the depths of World War II will be successfully fitted together to form a working mechanism, and whether this mechanism, in turn, will develop into living reality and serve the objectives of its designers. The time and circumstances in which these schemes were conceived account for much of their strength as well as their weakness. To have devoted thought and effort to the economic future of the world at a time when the military conflict, with its turning point not yet in sight, was claiming all the energies of the United Nations, is an achievement which will stand to the lasting credit of the United States and Britain, who took the initiative in evolving these plans. Far from confining their attention to the measures needed to meet the difficulties of the initial transition period from war to peace, they set their sights to a much more ambitious range and formulated a plan designed to prevent, by concerted international action, the re-emergence of those problems which before the war had caused a progressive disintegration of the world's economic structure.

It is an uncomfortable truth that the outbreak of war, by suspending the operation of what had remained of "normal" international economic relationships, granted the world a reprieve from economic upheavals and painful readjustments which might have been no less destructive of wealth and prosperity than the destruction and dislocation wrought by war itself. War presented the nations with a moratorium which gave them time to study and reflect upon the ailments of the world economy in the two preceding decades. However, it did more than that, for the tremendous economic achievement, which backed and made possible the military effort of the United Nations, provided an object lesson of the potentialities and merits of wholehearted international co-operation. The manner in which the United Nations pooled and planned their resources on a virtually world-wide scale in order to overcome otherwise insuperable problems of production and transportation stands out as a challenge

to the leaders of the post-war world and their peoples. If they could be moved to such a formidable common effort by the destructive motives of war and fail to take similar inspiration from the constructive aims of peace their economic fate will be no better than they deserve.

However, the goals which inspired and the ties which bound the United Nations in the war have not survived unshaken into the post-war world. At a time when subordination of national interests to the common cause was the watchword, when a united front had to be presented to the enemy at almost any price, and when the Allied peoples had to be inspired by vistas of a sane and prosperous future world, it was easier for statesmen to put their signatures to the blue-prints of a better world than it is now to reconcile these schemes with the harsh realities of a world at peace which has gone back to competition and commercial reckoning instead of the generous give-and-take of wartime, a world which has learnt little or nothing about the dangers of political nationalism, and evidently not much more about its expensive partner, economic nationalism.

Yet the challenge of the war still stands, and the schemes created under its impulses are there for the nations to accept or to reject. They have to choose between a certain return to the bad old ways of unfettered international competition with their inevitable corollaries —less prosperity, less security and lower living standards than could be secured by a world which makes rational use of the opportunities offered to it by modern technology and science; and on the other hand an attempt, unpredictable in its outcome because it has never been tried before, to adopt certain rules and standards in the conduct of international economic relations which would serve the only valid aim of all collective economic activity: to bring the greatest possible material prosperity to the greatest possible number of humans.

One of the criticisms most commonly directed against these schemes is that they try to get back to the practices of a distant age and attempt to revive by artificial respiration a brand of economic liberalism which has been dead for many decades. The only truth in this assertion is that the basic principle underlying these plans was first formulated over a hundred years ago, but nothing that has happened since has in the least detracted from its validity. This principle, briefly, says that international trade is the only means by which a country can overcome the limits set to its standard of living by its indigenous economic resources; that it will do best by exchanging the goods and services which it can produce more efficiently than other countries against those which the others are better equipped to furnish; and finally that the maximum benefit accrues to all concerned if such exchange is not hampered by artificial barriers and diversions imposed

by sovereign states whose frontiers, arbitrarily and accidentally, cut across the uneven geographical distribution of the world's resources.

The fact that this principle was never fully put into practice, while in the past fifty years even its imperfect operation has been increasingly curtailed by measures dictated by a variety of non-economic reasons, does not invalidate it but merely proves that in the past as in the present the world has not been sensible enough to place the pursuit of economic prosperity above national ambitions and aspirations, sectional interests or, at best, motives of social security. The authors of the schemes might be accused, with better justification perhaps, of offering a perfectly rational plan to a highly irrational world, but this is hardly a reactionary intention. Such a charge, however, must be qualified by acknowledging that the authors were fully aware of the kind of world they were dealing with. They have not insisted on dogmatic and unrealistic adherence to the pure principle as it has been stated above, but have made an earnest effort to adapt it to realities in order to make it acceptable to the widest possible circle of nations with their peculiar policies, problems and difficulties.

A second criticism which may be dealt with at this stage, since it has been voiced most ardently by British critics, claims that "Bretton Woods and all that" is an attempt by the United States to cash in, under a guise of international fair play and non-discrimination, on its present powerful position in world politics and economics, and to consolidate its economic hegemony by foisting upon an unwilling world a plan which gives America an undue voice in its operation and serves primarily its own interests. To deal with this allegation both briefly and convincingly is not altogether easy, since it is best refuted by study and knowledge of these schemes themselves.*

That the United States is *the* leading economic Power in the modern world, and by virtue of its position is entitled to play a leading rôle on the international economic stage, is simply a fact which cannot be altered by any degree of nostalgia over the loss by Britain of a similar position held in the nineteenth century. It is also a fact that the international schemes are largely based on American proposals and American initiative, although the British contribution to their framing has been substantial. They certainly contain provisions which the United States could use to its own advantage, just as some of their rules could be used by Britain or any other country to promote their particular interests. An assessment of these schemes, however, on the sole basis of the advantages which they might confer upon

* The best answer, at length and in detail, to the argument that these schemes are injurious to British, and unfairly favourable to American interests, is given by R. F. Harrod in *A Page of British Folly* Macmillan & Co., Ltd. 1946.

or withhold from any particular country completely misunderstands the spirit in which they were designed and which is the prerequisite to their successful operation. All signatories alike undertake to abide by the general commitments which they voluntarily accept as serving a common interest, even if this involves relinquishing established practices adopted in a different political and economic environment to promote the real or imaginary interests of individual members. It is not so much the general commitments which will determine the success or failure of the schemes, as the contribution which each member will be prepared to make towards the implementation of the broad principles after the schemes have been put into operation, and as will be seen below, America will be expected to make contributions no less significant than Britain's. It is an important subsidiary aim of the schemes to provide a platform for international discussion of mutual concessions and their simultaneous and concerted enactment. The lack of such a platform in pre-war days was one of the principal obstacles to the dismantling of trade barriers, since no one would make a start for fear that the others would not follow.

The disservice done to the international post-war projects by uninformed criticism is matched by that rendered by enthusiastic protagonists who have praised them as infallible panaceas for all the world's economic ailments, which would place it automatically on a safe and straight road to prosperity. They are not and never pretended to be anything of this kind. Just as the political machinery of U.N.O. will remain ineffective unless it is filled with the flesh and blood of genuine goodwill among its members, the economic organisations will remain hollow shells if political discord and national jealousies prevent the creation of that rational economic environment on which they depend for their success and which they simultaneously are designed to promote. They propose practical solutions to some of the economic problems of the past and present. The causes of these ailments are known, and remedies can be prescribed, but the success of the treatment will depend on whether the patient is willing to be cured.

The ailments which afflicted the world economy in the period between the Wars are almost too numerous for detailed enumeration in a limited space. Some of them were direct offshoots of the first World War, which had disrupted the network of world trade developed before 1914, had checked the progress of some economies while promoting that of others, had modified the old-time international division of labour by advancing the industrialisation of regions which previously had figured as sources of raw materials and food, and had played havoc with the structure of international finance by turning debtors

into creditors and saddling the world economy with a heavy legacy of political debts A set of peace treaties drafted without regard to economic considerations, and full of economic absurdities, contributed its share to the difficulties of re-knitting the broken fabric of world commerce. The world-wide need for reconstruction and demand pent-up during the war resulted in the appearance of healthy expansion of world trade during most of the 'twenties, but the collapse of 1929 was all the more sudden and revealed the shaky foundations of the earlier boom. During and after the Great Depression the progressive disintegration of the world economy could no longer be disguised. Every country attempted to combat its economic difficulties on its own, by measures which could have succeeded only at the expense of other nations, but which were bound to fail since everybody was doing the same, with the result that recovery was retarded everywhere. Tariffs were raised or direct import restrictions adopted to protect domestic employment and stabilise balances of trade, the system of freely convertible exchanges and multilateral settlement of payments broke down with the imposition of foreign exchange controls, competitive devaluation of currencies, bilateral clearing and barter arrangements and multiple exchange rates. Measures originally adopted out of need for economic self-preservation in the throes of crisis tended to become perpetuated as normal attributes of commercial policy, and were even praised as progressive devices which ensured immunity from the disruptive effects of international trade cycles. The fear of instability and unemployment grew such deep roots in many countries that they took up in earnest the choice between security at lower living standards and the uncertain benefits and risks of unrestricted participation in world trade, but the countries most vocal in praise of the virtues of restrictive and discriminatory practices were those who based their own economic recovery on rearmament, and made their foreign trade serve their political aggressive designs and strategic needs. It is the fashion now to refer to the whole gamut of economic warfare devices developed in that period as the "Schachtian" policies, but although Hitler's financial master-mind takes much of the doubtful credit for their perfection, and Germany was the worst offender in their application, there is no major country entirely free of responsibility for prolonging depression and obstructing the revival of world trade in the 'thirties.

Such was the economic legacy which the United Nations took to war with them, and though its problems were in abeyance while the conflict lasted, it was clear that nothing short of a well-planned and ambitious effort would stop them from reappearing after the war, intensified if anything by its economic aftermath. This realisation led to the formulation, at an early stage of the war, of the broad principles

by which the United States and Britain, followed later by the other United Nations, proclaimed their determination to place their economic relations on a sounder basis after the war than they had been before, as one of their principal constructive war aims. First advanced in the Atlantic Charter, these principles were elaborated in Article VII of the Anglo-American Mutual Aid Agreement of February 23, 1942, which became the corner-stone of the whole framework of agreements built later in the war. Article VII proclaimed the two Governments' intention to settle claims arising from mutual aid in a manner that would "not burden commerce between the two countries, but . . . promote mutually advantageous economic relations between them and the betterment of world-wide economic relations", and proceeded to define the positive objectives to be served by the settlement, which was to:

> "include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Atlantic Charter."

Article VII was subsequently signed by all the countries who received Lease-Lend aid, but it merely set the broad aims and defined the general characteristics of the international economic environment to be created after the war. To translate this statement of principles into practical schemes for their implementation called for a prodigious effort which necessarily extended over a considerable period of time and is far from complete yet. Much has been accomplished, and much has yet to be done, for the success of each scheme depends upon the simultaneous operation of the others. The field which they cover is broadly divided into two spheres, requiring different techniques of approach but by no means independent of each other: the problems which resulted before the war from the breakdown of the international monetary system; and on the other hand those brought on by restrictive and discriminatory national commercial policies. Better progress has been made in the former than in the latter sphere. The Monetary Fund and International Bank launched at Bretton Woods are due to start operations this year, but the Conference on Trade and Employment which is to

discuss the creation of an International Trade Organisation is still the subject of preliminary inter-governmental discussions.

The Bretton Woods Conference held in July, 1944, dealt with two closely related problems of international finance. Its first task was to find remedies for the disruptive influences exerted on world commerce by the instability of exchange rates, their unilateral manipulation by national governments and restrictions on free convertibility of currencies. These problems were caused by maladjustments in national balances of payments, and by the efforts of individual countries, each on its own, to counteract these maladjustments by unilateral action in the monetary field, designed to "protect their currencies". Such measures, at best, provided a temporary breathing spell to the nations which adopted them, but their effects were nullified as soon as other countries followed suit with similar attempts. It was fully demonstrated that unilateral monetary measures provide no lasting solution to the problems of any one country, and in the long run add to the difficulties of all. Measures confined to the monetary field, whether national or international, cannot, in fact, remove the causes of balance-of-payments disturbances. No currency stabilisation scheme, however ingeniously devised, can enable a country in the long run to pay out more to the rest of the world than it receives, or to collect more than it has paid out. What it can achieve, and this is the purpose of the Bretton Woods Monetary Fund, is to assist countries whose international accounts are temporarily out of balance to restore equilibrium without suffering serious fluctuations in the value of their currencies or resorting to unilateral currency manipulation.

The second task at Bretton Woods was to design an instrument which would contribute to the regulation of international long-term investment according to sound economic principles, and would channel its flow so as to correct disturbances in national balances of payments and thus promote a balanced expansion of world trade. The International Bank for Reconstruction and Development, created for this purpose, takes over where the jurisdiction of the Monetary Fund ends. Its aim is to assist in maintaining a long-range equilibrium in balances of payments, while the Fund is to cushion, and help to overcome, short-term disturbances.

International Monetary Fund

The signatories to the Monetary Fund Agreement assume certain obligations with regard to their national monetary policies which will promote the purposes of the Fund, and the Fund itself is to assist them in discharging these obligations, which cover three principal points:

1. Members of the Fund undertake not to effect changes in the par values of their currencies, as initially agreed with the Fund, except within fairly narrow limits or otherwise with the Fund's consent. This condition does not imply an intention to make exchange rates rigid and immutable, but it does correct one of the major defects in pre-war international monetary relations, when each country was free to determine the exchange value of its currency by unilateral governmental action. The exchange rate of a currency, however, is by its very nature a matter of international concern, and the effects of any change are inevitably felt beyond the frontiers of the country making it. By surrendering the national prerogative of major currency revaluations to an international agency each country stands to gain more than it can possibly lose, since it insures itself against being drawn into another wave of competitive currency devaluations similar to that which benefited none and damaged all in the early 'thirties.

2. Their second obligation is to remove, after an agreed transition period, all national foreign exchange controls in respect of current transactions, and to make all proceeds from such transactions freely convertible into other members' currencies. Current transactions include all payments arising from foreign trade, the exchange of services, normal short-term banking and credit business, normal service of debts and transfers of income from investments; but not the transfer of long-term capital.

3. Members undertake not to engage in currency practices which discriminate against or in favour of other members, and to refrain from adopting multiple exchange rates for different kinds of transactions or in dealings with different countries.

The total size of the Fund has been initially set at 8,800 million dollars. Each of the forty-five countries which have signed (but not necessarily ratified) the Fund agreement to date has been assigned a quota in the Fund. The quotas of the principal members were determined at Bretton Woods by a somewhat arbitrary weighting of their economic importance, past participation in world trade, and last but not least, their political power and prestige. In consequence there is little economic reason in the grading of the amounts assigned to the major members*. That of the United States, nearly one-third of the total Fund, fairly reflects their key position in the post-war world economy; and in any case the bigger it is, the better for the Fund, whose chief problem for years to come will be to meet a heavy demand for dollars. However, there is no valid economic reason for a Soviet quota nearly as large as the British, or a Chinese quota larger than the French. These absurdities are more than just blemishes on the rational structure of the Fund, since the size of the quotas

* For list of quotas see Appendix.

determines, among other things, the voting power of members and their representation on the governing bodies of the Fund, as well as the amount of foreign currencies which they are normally entitled to purchase from the Fund.

Each member pays a part of his quota into the Fund in gold, and the balance in his own currency. The minimum share payable in gold is 25 per cent. of the quota, or 10 per cent. of the member's "net official holdings" of gold and United States dollars, whichever amount is smaller*. Quotas will be subject to general review, and if necessary, adjustment, at five-year intervals, but the Fund will at any other time consider individual applications for quota readjustments.

The operations of the Fund will mainly consist in selling to its members, at their request, currency of other members in return for their own currency, or for gold. Purchases with gold are not restricted, but the amount of his own currency which a member can sell to the Fund in any twelve-month period is limited to 25 per cent. of his quota, and the total amount of a member's currency held by the Fund at any given time is not to exceed 200 per cent. of his quota. The limitation of purchases to 25 per cent. of the member's quota in any year does not apply as long as the Fund's holdings of the currency concerned are less than 75 per cent. of its quota. This is one of the precautions adopted by the Fund to prevent members from continuously drawing on its resources in order to balance deficits on their foreign trade accounts; and to encourage members with recurrent deficits to make the adjustments necessary for their elimination As a second measure to this end, the Fund will levy charges on its holdings of those currencies which substantially and persistently exceed the quota of the member concerned. These charges are graded by the size of the overdraft and the period for which it has been maintained. After they have reached a certain annual rate, and if consultations between the Fund and the offending member have failed to bring about a reduction of the excess balance, the Fund can raise the charges at its discretion to a penal level. So as to prevent the accumulation in the Fund of the currencies of countries with adverse balances of trade, each member is required to re-purchase, at the end of each financial year, a certain portion of any increase that has taken place in the Fund's holdings of his currency. Such re-purchases must be effected with convertible foreign currencies or gold. The obligation to re-purchase can be eased or waived altogether if the member's national reserves of gold and foreign exchange have declined during the same period, but if they have increased, he is expected to use part of the increase in additional re-purchases.

* The official holdings of a member country are those held by its Treasury, central bank, stabilisation fund, or a similar central agency.

These conditions afford ample protection to the Fund against the abuse of its resources for the plugging of more than temporary foreign trade deficits by its members. One of the Fund's express purposes is to "shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members", but it cannot attempt to do more than cushion temporary and marginal maladjustments in a network of world commerce which it assumes to be broadly in balance. By limiting, and if necessary denying, access to its resources to members with persistent trade deficits, the Fund protects itself against having its mechanism blocked by one or several such countries, to the disadvantage of all others. Such protection is necessary and fully legitimate, but if the Fund is to promote, as it is also designed to do, the "balanced growth" of international trade, it must do more than merely compel members to correct deficits on their trade accounts, for in most cases such a correction will have a restrictive rather than expansive effect on the volume of trade, simply because a country can cut down its imports and other expenditure abroad, while it cannot compel other countries to buy more of its goods. Existence of an import surplus in one place always presupposes an export surplus elsewhere, and a swamping of the Monetary Fund with the currencies of debtor countries will necessarily be accompanied by a drain on its holdings of the currencies of creditor states.

It is not easy to devise a procedure which in such a situation would exert effective pressure on a creditor country to adjust its balance of payments, and the Monetary Fund cannot be the sole, or even the principal, instrument for promoting such adjustment. However, it makes a far from negligible contribution to the problem in its provisions for "scarce currencies". If a persistently favourable balance of trade of one of its members results in a "general scarcity" of a particular currency, the Fund will first make recommendations designed to check the scarcity, presumably by exhorting the creditor member to expand his imports or discourage exports. If these recommendations prove ineffective the Fund will be entitled to replenish its holdings of the scarce currency by borrowing or purchasing it for gold from the member concerned. The creditor member, at the same time, is entitled and encouraged to purchase other currencies from the Fund for the purpose of capital transfer, the only case in which the Fund's resources may be used for capital transactions. Finally, if the scarcity persists, and the Fund's ability to supply the currency is seriously threatened, it will issue a formal "scarce currency" declaration, and institute a rationing procedure by which its holdings of the scarce currency and new receipts will be apportioned "with due regard to the relative needs of members, the general international economic situation and any other pertinent considerations". Such a declaration automati-

cally lifts the general ban imposed by Bretton Woods on foreign exchange restrictions, and authorises any member to limit transactions in the scarce currency in order to adjust its use to the supply. In effect, the "scarce currency" clause lifts the Bretton Woods taboo on discriminatory action, for it specifically empowers debtors to discriminate against a country which, by international common consent, has been found to persist in a surplus of claims over payments in its international current transactions. It provides a sanction as strong as can be adopted by a freely-convened international organisation. A creditor country whose currency has been proclaimed scarce will find its competitive position in foreign trade substantially worsened, as its partners will be entitled to transfer their purchases to other sources and ration their imports from the "scarce currency" country. The creditor, if he does not want to accept a reduction of his exports, will be facing two alternatives: either to increase his purchases from abroad, or to augment the supply of his currency by the export of capital. This second alternative is not, as some critics maintain, an easy loophole for creditors which defeats the purpose of the scarce currency clause, but a legitimate and economically sound way of offsetting a surplus on the balance of trade and other current accounts.

The Fund's power to grant or withhold its consent to changes in the par values of its members' currencies gives it an important additional means for using the monetary mechanism directly in the correction of balance-of-payments disturbances. Each member undertakes to promote the stability of exchange rates and to adhere to the par value fixed for his currency at the outset of the Fund's operations, but if he can satisfy the Fund that a "fundamental disequilibrium" has developed in his balance of payments, and that a change of the par value would be a justified and useful corrective, the Fund will not object to a change of not more than 10 per cent. up or down, of the initial par value. Changes between 10 and 20 per cent. may be accepted or refused by the Fund, but it must declare its decision within three days upon receipt of the member's application. If changes of more than 20 per cent. are proposed, the Fund will be entitled to a longer period in which to consider and declare its attitude. The initiative must always come from the member proposing the change, and the Fund cannot, for example, recommend an appreciation of its currency to a creditor country, but it can assist one or several debtor countries to re-establish a balance in their accounts by concurring in a depreciation of their currencies if it recognises a condition of "fundamental disequilibrium" as the basis of their claim

The Monetary Fund agreement fully recognises that it will not be possible for many of its members, and Britain is one of them, to assume their obligations in full immediately upon the start of the

Fund's operations. In the post-war transition period its members are authorised to retain restrictions on payments for current international transactions, but they undertake to remove such restrictions as soon as their conditions permit, and, while they remain in force, to have "continuous regard in their foreign exchange policies for the purposes of the Fund". Within this general undertaking members will be left free, for a period of five years after the date on which the Fund begins to operate, to retain or abolish restrictions at their own discretion, but restrictions which are still in force when this period has expired will require the consent of the Fund. In exceptional cases the Fund may demand the removal of restrictions which are inconsistent with its purposes. These transitional provisions are so generous that it will take all the goodwill of all the members to restore free convertibility of exchanges throughout the world within the statutory five-year period. An important step towards this essential prerequisite of the Fund's successful operation, however, has been made by the Washington Loan Agreement, in which Britain has undertaken to abolish most of the restrictions on convertibility of sterling in current transactions within a year of the effective date of the Loan Agreement.

International Bank for Reconstruction and Development

The Monetary Fund is not concerned with international capital transactions, other than those intended to counteract the scarcity of specific currencies, and transfers of "reasonable amounts" required for the expansion of exports or in the ordinary course of trade. Similarly, the Fund is not intended to provide facilities for post-war relief or reconstruction, or to deal with international indebtedness arising out of the war. In several of these important fields the same general purposes which the Fund is to promote will be served by the International Bank for Reconstruction and Development. It was admittedly called a Bank "because no satisfactory name could be found in the dictionary for this unprecedented institution"*. Many essential features of normal banking operations are absent from its statutes. It accepts no deposits, transacts no short-term business, and operates on a non-profit basis. However, it can claim the name of a bank insofar as it grants and guarantees loans, issues bonds, and has a capital subscribed by shareholders, who in this case are the governments of the member countries. Its principal declared purpose is to assist in the reconstruction of war-ravaged countries, promote the reconversion of productive facilities to peace-time uses, and help in the development of economically backward countries, by facilitating the investment of capital for these purposes. However, the Bank's close functional con-

* Report of Commission II to the Executive Plenary Session of the Bretton Woods Conference. Cmd. 6,597, p. 15.

nection with the Monetary Fund emerges from the clause which gives it the task of promoting "the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment". The intention expressed in this clause was one of the principal motives for the creation of the Bank. Its genesis is closely connected with America's balance-of-payments' experience between the two World Wars, and the part played by capital movements in that period*. For domestic political reasons the American authors of the proposal for the International Bank had to lay stress in its name and statutes on the "productive" implications of reconstruction and economic development, but one of its foremost implicit functions will be to channel the outflow of American capital in a more systematic and mutually beneficial manner than in the past.

Although the Bank itself intends to act as an investor on an important scale, the chief emphasis in its operations will be on promoting and facilitating the investment of private capital to the best advantage of lenders and borrowers. It will guarantee, and may itself participate in loans floated in the private market; only if private capital is not available on reasonable terms for financing schemes which have been approved by the Bank, it will itself provide funds for their execution, either from its own capital or by the issue of bonds. Since no other country besides the United States is likely, for many years to come, to act as an exporter of capital on any substantial scale, the private capital market referred to in the Bank's statutes is first and foremost that of the United States.

An element of international development planning is introduced into the Bank's statutes by the provision that loans made or guaranteed by the Bank must be co-ordinated with lending activities through other channels so as to give priority to "the more useful and urgent projects". This clause confers upon the Bank limited, but conceivably quite important, powers of judgment on the merits of the domestic economic policies of its members, and it is not surprising that the Soviet delegation to Bretton Woods filed a demurrer to this clause, although another section of its statutes specifically pledges the Bank not to interfere in the political affairs of any member or to be influenced in its decisions by the "political character" of the member concerned.

Membership in the Bank, like the Monetary Fund, will be initially confined to the signatories of the Bretton Woods Final Act, subject again to ratification, and may later be extended to any nation willing to adhere to its statutes. The governments of the member states will be shareholders of the Bank, and no shares will pass into private hands or be transferred directly from one government to another. The Bank's

* See Chapter V: "The United States and World Trade".

authorised capital, totalling ten billion dollars, is divided into 100,000 shares of $100,000 each. So far $9,168 million have been allocated to the 45 signatories of Bretton Woods. The United States allotment, with $3,175 million, is consistent with its position as the major source of investment capital, but the allocation of shares to the other leading members was effected in a similarly irrational fashion as that of the Fund quotas*. Although the Bank's authorised capital is a huge sum which exceeds anything the world has ever known in this field, its size is very largely nominal, since four-fifths of it represents a guarantee fund which can only be called up under special circumstances which, one must hope, will never arise. Only 20 per cent. of the authorised capital will be subject to call when the Bank begins operations. Each member will pay 2 per cent. in gold or dollars, with easier terms for ex-occupied countries, and the balance in his own currency by instalments spread over at least eighteen months. Payment of capital subscribed above the initial 20 per cent. will only be demanded if the Bank has to meet obligations arising from default on loans which it had guaranteed or in which it participated.

In its operations the Bank will not discriminate between reconstruction and development projects, but member countries which have suffered substantial war damage will receive special consideration. The Bank may make or guarantee loans directly to member governments, or to regional and municipal authorities and private firms in their countries. When a national government is not itself the borrower, it has to guarantee fully to the Bank the amount of any loan made to borrowers in its territory. Except in special cases, the loans will be for the execution of specific reconstruction or development schemes. In accordance with its purpose of making international investment assist the expansion of world trade, the Bank will not finance purely domestic projects by making or sponsoring loans in the currency of the borrowing country, but it will provide the foreign currencies required for the execution of schemes which call for expenditure abroad. International Bank loans will not have to be spent in any specified country, that is, it will not make or guarantee loans which would promote the exports of the lending countries without benefiting world trade as a whole. By making the proceeds of its loans freely expendable, the Bank will serve the cause of multilateral trade and thus assist the operations of the Monetary Fund. This provision is particularly significant because the International Bank is designed to become a major outlet for American lending. The principal existing channel for American foreign investment, the Export-Import Bank, attaches to its loans the condition that their proceeds must be spent in the United States.

* See Appendix for list of capital subscriptions, p. 100.

Conditions of loans made directly by the Bank from its own resources will include the important provision that a borrowing country which develops a shortage of foreign exchange and is unable to maintain service payments on a loan in the currency originally stipulated shall be entitled, with the Bank's consent, to pay the debt charges in its own national currency for a period of up to three years. The Bank may also modify the amortisation terms or extend the life of the loan.

The direct lending power of the Bank will be limited to the paid-up portion of its capital, or to a maximum of just under two milliard dollars, assuming that the agreement will be ratified by all signatories. It will be authorised, in addition, to guarantee and participate in loans up to an amount roughly equal to its total subscribed capital, or 9,168 million dollars on the same assumption. Its total potential authority for investing directly and encouraging private investment will thus be roughly equal to the outflow of capital from the United States in the ten years which followed the first World War. Ratifications reported at the time of writing add up to a subscribed capital in the neighbourhood of 7,500 milliard dollars. Even this smaller sum provides a measure of the contribution which the Bank should be able to make to a sound international investment market.

Administration of Bretton Woods Agencies

Both the agencies created at Bretton Woods have a closely similar administrative structure and voting procedure. Each member's voting strength is made up of an initial block of 250 votes, and a variable portion dependent on the size of his quota in the Fund, or his subscription to the capital of the Bank. Every 100,000 dollars of his fund quota, and every 100,000-dollar share subscribed to the Bank, entitles a member to one vote additional to his basic allotments. It is obviously the variable portion which will determine the influence which a member will bring to bear upon the decisions of the two institutions, and the method adopted to determine the voting strength gives roughly two-thirds of all votes to the "Big Five" members. If the Bretton Woods agreements are ratified by all the forty-five signatories, the Fund and Bank will have a total voting pool of approximately 100,000 votes each, and the votes of the "Big Five" will be as follows:

	Monetary Fund	International Bank
United States	27,750	32,000
United Kingdom	13,250	13,250
U.S.S.R.	12,250	12,250
China	5,750	6,250
France	4,750	4,750

In general, each member's voting strength will remain constant, but the rules of the Monetary Fund provide for adjustments when a vote is taken on either of two questions. a proposal to make a member ineligible for access to the Fund for using its resources in a manner contrary to its purposes, or on a request from a member to purchase foreign currency from the Fund in excess of the normal limits laid down by the agreement. In both cases, "creditor" members will be given an advantage over the "debtors", since each member's voting strength will be increased by one additional vote for every $400,000 of net sales of its currency by the Fund, or decreased by one vote for every $400,000 of net purchases by the Fund. No member, however, will lose or gain more than a quarter of his normal voting strength under this provision.

Leadership by the Big Five is also acknowledged in the composition of the governing bodies of the Fund and Bank. Each member appoints a Governor to the Boards of both agencies, who exercises an influence proportionate to his country's voting strength by casting its votes at Board meetings. As a rule, the Boards decide by simple majority vote, but greater majorities are required for decisions on important points specified in the agreements. For example, a member's request for a readjustment of his quota in the Monetary Fund requires a four-fifths majority to be accepted.

The Boards will meet annually, and current operations of the Fund and Bank will be supervised by Executive Directorates which in both cases consist of twelve members. Each of the Big Five appoints one Executive Director, and the remaining seven are elected by the lesser members. For the Fund (but not the Bank) two of these will be elected by the Latin American republics. Two more members of the Fund may be given the right to appoint Executive Directors in the unlikely event that the Fund's holdings of their currencies have been reduced by a greater absolute amount than its holdings of the Big Five's currencies. Elected directors will serve for two-year terms on the Bank and Fund; appointed directors at the appointing member's discretion on the Fund and for two years on the Bank, but reappointment and re-election are permitted by both agencies.

International Trade Organisation

Monetary and financial schemes alone cannot remove all the causes of the pre-war disintegration of the world economy, and Bretton Woods can do no more than ensure that money acts as the servant and not the master of world trade. To gather the full benefits of this plan it must be supplemented by a re-direction of national commercial policies towards the same basic objectives. The Bretton Woods Conference, to this end, adopted a resolution recommending further international

measures which would "reduce obstacles to international trade and in other ways promote mutually advantageous commercial relations"; "bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike"; and "facilitate by co-operative effort the harmonization of national policies of member states designed to promote and maintain high levels of employment and progressively rising standards of living."

These recommendations were elaborated by the U.S. State Department in its "Proposals for Consideration by an International Conference on Trade and Employment", published on December 6, 1945, with a joint Anglo-American statement in which the British Government declares itself "in full agreement on all important points in these proposals and accepts them as a basis for international discussion". This Conference is to consider the creation of an International Trade Organisation as a permanent instrument for implementing agreed policies for the removal of trade barriers and discriminations which obstruct the resumption and growth of multilateral trade. Adoption of such policies by the member nations is to be combined with an undertaking on their part to make full employment at home a principal aim of their domestic economic policies. They are to pursue this aim only by measures which are "not likely to create unemployment in other countries", and do not clash with "international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production". No attempt is made to prescribe to any nation specific recipes for its full employment policy, and each member is left free to adopt measures "appropriate to its political and economic institutions."

These Proposals are based on elementary and irrefutably sound economic principles. Domestic full employment is an indispensable condition of prosperity in each country, but it will only lead to prosperity if it goes beyond merely providing a steady job for every citizen willing and able to work, and also gives every worker the highest possible real income and standard of living. This double aim can only be achieved if every country takes full advantage of the additions which foreign trade can make to its domestic prosperity, and not by cultivating high-cost industries behind protective barriers or limiting the choice of its markets by participation in exclusive *blocs*. In order to make international commerce serve most effectively its only legitimate purpose of adding to the prosperity of the trading nations, they are asked at the Conference to agree on a series of measures which would go far to disentangle the web of artificial restrictions which enmeshed world trade before the war and threaten to do so again. It is essential in studying the Proposals to bear in mind that they assume simultaneous operation of the Bretton Woods monetary and financial

schemes, for many of the barriers and diversions which they want removed had their origin in the breakdown of the international exchange mechanism.

An all-round reduction of import tariffs would be the most important single contribution to the objectives set forth in the Conference Proposals. They invite the prospective members of the Trade Organisation to "enter into arrangements for the substantial reduction of tariffs", and simultaneously to agree upon the elimination of tariff preferences. Success or failure of the Organisation will very largely depend upon the contribution which it will be able to make to this thorny problem. In both respects—reduction of tariffs and abolition of preferences—the lead will have to be taken by Britain and the United States. Imperial Preference is by far the most important combination of a high tariff with exclusive privileges accorded to a selected group of trade partners, and the American tariff is the biggest single obstacle to an expansion of balanced world trade. On both sides many genuine difficulties as well as deeply-rooted prejudices stand in the way of a radical break with the past, and yet such a break would be the most convincing proof which the world's two leading commercial nations could give of their sincere adherence to the principles which their governments have jointly propounded ever since the Atlantic Charter.

Quantitative restrictions on the volume of foreign trade are the second major item on the agenda for the Conference. Countries joining the Trade Organisation are invited to undertake to abolish quotas, embargoes, licensing procedures, and other measures limiting the quantity of their imports or exports. Exceptions are provided for the post-war transition period, when shortages of commodities, foreign exchange and shipping space will make it essential for many nations to regulate their foreign trade by quantitative controls. International arrangements which ensure equitable distribution of goods in short supply will also be exempt from the ban. It is proposed, however, that any restrictions which remain in force three years after the end of hostilities would require the sanction of the Trade Organisation. Beyond the transition period exceptions will only be allowed in certain specified cases. Members confronted with the need of adjusting an adverse balance of payments will be permitted to adopt temporary quantitative restrictions on their imports; they may also be imposed on imports from a country whose currency has been declared scarce by the Monetary Fund; and the disposal of raw material surpluses may be facilitated by such restrictions under the international commodity agreements contemplated by the Proposals.

Export subsidies are to be outlawed by an undertaking on the part of all members to refrain from measures which result in the sale of a

product abroad at prices lower than those charged to domestic buyers, with due allowance for taxation and other conditions affecting price comparability. Commodities which, in accordance with agreed definitions, have become a "burdensome world surplus" may be exempt from the ban on subsidies, but only if attempts to dispose of the surplus by other means have failed. No general prohibition is proposed of domestic production subsidies which, incidentally or by design, operate to reduce imports or increase exports, but countries applying such subsidies must report them to the Organisation, and if a subsidy is deemed to inflict "serious injury to international trade", a country may be asked to limit production of the subsidised product.

Most of the proposals put to the Conference are concerned with restrictive and discriminatory practices pursued by national governments, but they also propose that the members of the Organisation should individually and collectively take steps to curb those restrictive practices of private business which tend to frustrate the objectives of the Organisation. This proposal covers roughly the field of international cartel agreements, being directed against "combinations or agreements to fix prices and terms of sale, divide markets or territories, limit production or exports, suppress technology or invention, exclude enterprises from particular fields, or boycott or discriminate against particular firms". The Organisation will act upon receiving complaints from members on the existence of such combinations or agreements, by issuing recommendations to the appropriate members for action in accordance with their national laws, and it will invite members to co-operate in measures which would make the enforcement of the anti-cartel provisions more effective.

Production and marketing of primary commodities are recognised by the Proposals to give rise to special problems which may justify the temporary adoption of restrictive measures to prevent economic distress and social dislocation in the producing countries. Past experience has amply demonstrated that the supply of primary commodities cannot be easily and quickly adjusted to fluctuations in demand, especially where production is dispersed among numerous small independent producers. Once output has overtaken consumption and the price has fallen, the balance is difficult to restore, since even a heavy price drop usually fails to evoke a comparable increase in consumption. Restrictive agreements between the producers were a common counter-measure to such situations before the war, but few of them succeeded in stabilising the market, and they were widely abused for maintaining prices at artificial levels at the expense of consumers. Under the Proposals, such commodity problems should be regulated by inter-governmental schemes which would serve the interests of producers and consumers more effectively

and equitably. If the supply of a commodity exceeds or threatens to exceed demand, the Organisation may appoint a study group which, as an initial step, would explore possibilities of stimulating consumption of the commodity involved. If no solution is found along these lines, and if it is agreed that continued surplus production would have serious effects in the producing countries, a conference will be called at which producing and importing countries will be equally represented and will negotiate an international commodity agreement to deal with the situation Such agreements may incorporate measures which are normally outlawed by the Organisation —restrictions on production and exports, subsidies to producers or exporters, and price arrangements. They will cover a five-year period which must be utilised for working out and applying agreed measures towards an orderly long-term solution of the commodity problem concerned, by "over-all economic adjustments designed to promote a shift of resources and manpower out of over-expanded industries into new and productive occupations". In other words, an agreement must not attempt to perpetuate an economically unsound situation, but should contribute to the general aim of the Organisation—the most efficient utilisation of world resources.

Many of the Conference Proposals require modification if they are to be adopted by countries where foreign trade, in part or as a whole, is a prerogative of the Government. Since State control of foreign trade usually goes with a greater or lesser measure of government control and planning of the domestic economy, unqualified acceptance of some of the principles proposed would involve a greater degree of international interference with domestic policies than such countries can be reasonably expected to accept. The authors of the Proposals have boldly attempted to give their scheme a world-wide appeal by adapting some of its provisions so as to make them more acceptable to countries engaging in "State trading". This term extends from countries like Britain which conduct bulk purchases of specific commodities under Government control, to those with complete State monopolies of foreign trade, like the Soviet Union. "State trading" members are asked to adhere to the principle of non-discrimination by according equality of treatment to all other members, and to undertake that their export and import operations shall be influenced "solely by commercial considerations, such as price, quality, marketability, transportation and terms of purchase and sale". No country will give away much by accepting these general principles (especially since they would be virtually unenforceable), but it will be much more difficult to get the Soviet Union and other countries with complete foreign trade monopolies to subscribe to the formula which the Proposals offer them for making

their contribution to an all-round reduction of trade barriers. Instead of the tariff reductions expected from other members, they are asked to import annually "products valued at not less than an aggregate amount to be agreed upon", and this global purchase undertaking should be "subject to periodic adjustment in consultation with the Organisation". Unless international agreement is to be purely nominal, it is difficult to see how a country which determines the volume of its foreign trade by the needs of a planned national economy can surrender its determination to international negotiation.

No country can be expected to plunge rashly into the brave new world of the American proposals, which call for the removal of practices clearly incompatible with a rational system of world trade as well as for mutual concessions on old-established commercial policies closely bound up with the existing economic and social structure of most countries. They require the most careful scrutiny of the problems involved. Many months after the Proposals were published, the full-scale Conference which is to take them for its agenda still seems far away. The United States Government has invited fourteen nations, including Britain and the Dominions, to a preparatory meeting. Before attending this meeting, the British Government will confer with the other members of the Commonwealth, and it is committed to consult the views of every British industry "likely to be affected in any way by modifications of the United Kingdom tariff, or by other aspects of the trade negotiations".

Combined with the Bretton Woods schemes, the measures proposed by America would go far towards recapturing the advantages of that international economic system in which British trade flourished in the past and eliminating the defects which caused this system to break down. Britain, more than any other country, depends for her prosperity on intensive exchanges with the outside world, and her interests will best be served by a system which enables her to buy and sell in the most profitable markets and to conduct world-wide commercial, financial and shipping operations. The most ardent critics of British participation in the international economic agencies have failed to produce an alternative more attractive than that nebulous sterling bloc which has been so well characterised by Lord Keynes:*

> "The alternative is to build up a separate economic bloc which excludes Canada and consists of countries to which we already owe more than we can pay, on the basis of their agreeing to lend us money which they have not got and buy only from us and one another goods we are unable to supply."

* In the House of Lords debate on the Washington Loan Agreement, December 18, 1945.

APPENDIX

National Quotas in the International Monetary Fund and International Bank for Reconstruction and Development.

(Millions of U.S. dollars)

	Quotas in Monetary Fund	Capital subscribed to International Bank
Australia	200	200
Belgium	225	225
Bolivia	10	7
Brazil	150	105
Canada	300	325
Chile...	50	35
China	550	600
Colombia	50	35
Costa Rica	5	2
Cuba	50	35
Czechoslovakia	125	125
Denmark	68	68
Dominican Republic ..	5	2
Ecuador	5	3 2
Egypt	45	40
El Salvador	2·5	1
Ethiopia	6	3
France	450	450
Greece	40	25
Guatemala	5	2
Haiti	5	2
Honduras	2·5	1
Iceland	1	1
India...	400	400
Iran	25	24
Iraq	8	6
Liberia	·5	·5
Luxembourg	10	10
Mexico	90	65
Netherlands...	275	275
New Zealand	50	50
Nicaragua	2	·8
Norway	50	50
Panama	·5	·2
Paraguay	2	·8
Peru	25	17·5
Philippines	15	15
Poland	125	125
Union of South Africa ...	100	100
U.S.S.R.	1,200	1,200
United Kingdom	1,300	1,300
United States	2,750	3,175
Uruguay	15	10·5
Venezuela	15	10·5
Yugoslavia	60	40

The Bretton Woods agencies will be off to a start sometime this year, with British participation. It will be a limping start, not only because some of the original signatories are missing—with Russia as the most notable absentee—but also because they cannot operate at full efficiency as long as the benefits of free and stable exchanges can be nullified by restrictive commercial policies. At the time of writing the fate of the American loan is still in balance. For Britain it will be an important, though by no means a decisive, factor in determining the contribution which she can make towards launching the Bretton Woods system. Failure of the loan would deprive her of a substantial aid in coping with the hangover of the war on her international accounts, but it would also restore to her the benefit of the full five-year transition period allowed by Bretton Woods for recovering her balance. The same holds good for the commercial policies proposed by America. They have a strong long-range appeal for a Britain confident in herself, and they also allow for a transition period long enough to liquidate the aftermath of the war, whether or not the liquidation is assisted by the dollar credit. In a different sense, however, the fate of the Loan must have an important influence on Britain's attitude to the Proposals. They were conceived by an Administration more alive to the mutual benefits of international co-operation than American public opinion, or at least those sections of it most vocally represented in the Legislature. If the Loan founders on the rocks of the Legislature, its wreck would be an ominous warning that America may be even less ready to give wholehearted support to the more substantial contributions which it would have to make to the success of the commercial policies proposed by its Government.

Introduction to

"THE UNITED STATES AND WORLD TRADE"

DR. HOEFFDING shows clearly enough that the future of world trade depends largely on the United States' domestic and foreign economic policy over the next few years. The position of the United States in the world's economy today strikingly resembles that which it held at the end of the First World War. The country has once more emerged from a war economically stronger than ever before in its history and as the only source of the capital required by almost the whole world for its reconstruction. It is generally agreed that the first time the States was in this position, that is, after the First World War, it fumbled its opportunities and failed to recognise its responsibilities. In the inter-war years the American people failed to appreciate that the United States, as the richest country in the world and as the world's greatest buyer of raw materials, affects decisively the internal economic stability of almost every other country in the world, particularly the producers of raw materials. During the inter-war years there were sudden and considerable fluctuations in the size of the American income and every one of these changes helped to dislocate the structure of world trade. At the same time American exports of merchandise were even greater than their imports, and the problem was still unsolved in 1939 as to how this imbalance could be met. The United States was unwilling to buy many imports and unwilling to advance credit to its customers, or rather, and this was worse, she was prepared to be a creditor in some years and in others equally determined to call in her overseas investments.

Post-war progress and stability in multilateral international trade call for economic stability in the United States, substantial American loans for reconstruction, and an American tariff policy which will allow the rest of the world to acquire the dollars they need to pay their debts. The United States cannot have it both ways, that is, a large export balance side by side with sharply

limited imports and credit facilities. It looks as if those responsible for American economic foreign policy have understood the implications of America's economic power. They have already made three great contributions to world economic development—the Lend-Lease device of the war years, the loan to Britain, and the flow of loans through the Export-Import Bank to a whole range of other countries. By these methods they have made it possible for the world to implement the Bretton Woods proposals and to go forward to the International Conference on Trade Policy where her major contribution might well be reductions in American tariffs on foreign manufactures.

Chapter V, Section 1

THE U.S. AND WORLD TRADE

By Oleg Hoeffding

THE position of the United States in the world economy today strikingly resembles that which it held at the end of World War I. In 1919 the American economy had emerged from the conflict unimpaired by any physical effects of war. On the contrary, its rôle as a source of war supplies and food for the European allies had tremendously expanded its productive capacity, and had turned the United States from a debtor country and field for foreign investment into the world's leading creditor and exporter of capital. World War II has reproduced the experience of World War I in almost every respect, except that now the United States finds itself with vastly expanded and consolidated, instead of newly-acquired, international economic power. For the second time in a generation a World War has grievously interrupted and put back the progress of the European economy, and has given a powerful impetus to the economic expansion of the United States.

In the two decades between the wars the way in which the United States wielded its new-won economic power profoundly influenced the course of international economic relations and of national economic fortunes. America and the rest of the world are richer today by the experience of the inter-war period, and if its lessons are applied, the very fact that history has repeated itself will make 1946 very different from 1919. There is no lack of realisation in the United States of the need of a constructive foreign economic policy which would establish its commercial and financial relations with the outside world on a sounder and mutually more beneficial basis than they were conducted in the past. This realisation spread long before, and in anticipation of, the economic problems which were bound to arise at the end of the war. It was vigorously promoted by Roosevelt's far-seeing administration, and his genius takes the credit for forestalling a repetition of one of the sorest problems which afflicted the world economy of the 'twenties. His masterly device of Lend-Lease aid saved the world from becoming the United States' debtor, and the United States from the no lesser peril of becoming the world's creditor, to the tune of some 40 milliard dollars, or four times more than the Allied debt to the

United States piled up in 1914-18. Britain alone received 30 milliard dollars' worth of Lend-Lease supplies and services, in return for 4 milliard dollars furnished under reverse Lend-Lease and the 650 million dollars which she is due to pay under the Washington financial agreement in final settlement of Lend-Lease. The launching of the Lend-Lease programme was combined with the promulgation of the broad principles of United States post-war policy for the expansion of world trade and the abolition of restrictive and discriminatory practices. Article VII of the Lend-Lease master agreement laid the foundations for the whole structure of international economic agreements built later in the war which is described elsewhere in this volume*.

By enabling the world to embark on its post-war course unencumbered by a vast ballast of political debt, the United States has made an outstanding contribution to the attainment of the objectives propounded by these American-inspired schemes. However, its contribution cannot end at this point if the United States is to live up to the commitments which its Government has undertaken itself and has recommended to all other nations. America's conduct of her international business between the wars, in fact, did not promote any of these basic objectives, and nothing short of a radical break with the past by the United States will ensure their attainment. The aim of Bretton Woods and the American proposals on commercial policy is to ensure a high and stable volume of world trade, based on two indispensable conditions: full employment in the trading countries and maintenance of balance in their international accounts, and it is these two conditions which America will be expected to meet.

Let us first examine the United States' past record in respect of the first condition. Full employment implies prosperity combined with economic stability. In the past, the American economy, though prosperous at times, was anything but stable, and the effects of its violent fluctuations were projected far and wide over the world. Sudden changes in the economic fortunes of a small country may have no appreciable effect on the outside world. However, the weight of the American economy and the volume of its foreign transactions are so great that economic conditions in the United States are bound to emanate widespread and profound influence upon the economies of other countries. In times of prosperity, the upward trend of American imports and other forms of dollar expenditure was a powerful factor in promoting prosperity abroad, but their sudden contraction at every downward swing of the curve of domestic economic activity was equally powerful in spreading depression. It would be unfair indeed to put all the blame for the hectic ups and downs of world

* See Chapter IV: "Bretton Woods and World Trade."

trade at America's door, as domestic economic instability was not peculiar to the United States, and international trade cycles are not generated by one country alone. However, the fact remains that a greater measure of economic stability than was displayed by the United States before the war would greatly help in stabilising world trade and assist other countries in achieving full and stable employment. The factors which in the past established a close interdependence between business conditions in the United States and those in the outside world are stronger now if anything than they were before the war. In the late 'twenties, the value of American industrial production very nearly equalled that of Britain, Germany, France, Japan and the eighteen next-ranking industrial nations combined. America's relative share in world production is considerably greater today, and will remain greater even after the European countries have recovered from the effects of war.

The rate at which this formidable industrial machine operates determines very largely the volume of American imports, two-thirds of which consisted before the war of raw materials and semi-manufactures purchased for processing by American industry. Their preponderance in American imports is primarily due to the fact that America possesses a fully integrated and highly efficient manufacturing industry, which can meet domestic demand for any product, but it is intensified by the protection of this industry by a tariff designed to admit its raw materials and keep out foreign manufactured goods. Once industrial activity, and demand for raw materials begin to drop, a contraction of American imports inevitably occurs, and since the United States is the world's biggest importer of raw materials, such sudden shrinkages produce widespread economic disturbances. Fluctuations of raw materials imports were the chief medium by which the effects of domestic instability in the United States were transmitted to the outside world, but there were many others besides. As will be seen below, the volume of American lending to foreign countries was closely connected with economic conditions at home. It expanded vigorously in the boom of the 'twenties, but contracted virtually to nothing when the tide turned in 1929. Other forms of dollar expenditure abroad also closely followed the cyclical curve: American tourists stayed at home, and American payments for foreign shipping services shrank automatically as the volume of freight to be carried declined with the contraction of import purchases.

In short, it will be impossible to maintain world trade at a steady level unless the United States succeeds in establishing conditions at home which will make for greater stability in its relations with other countries. Full employment is among the major avowed objectives

of American post-war economic policy, and it is too early yet to judge whether this goal will be achieved. No country can as yet claim to possess an infallible recipe for full employment, but in all fairness it can be said that the United States is singularly ill-equipped for pursuing a consistent and effective full employment policy. The performance of its Administration since the end of the war justifies scepticism as to its ability to overcome the traditions of individualism, to control and reconcile conflicting sectional interests, and to direct them towards a common objective.

Realisation of the second condition of a high and stable level of international trade—the balancing of international accounts—also hinges very largely upon a break by America with its practices of the past. The chronic imbalance of the United States' foreign accounts was among the principal factors which brought about those restrictive and discriminatory commercial and monetary policies which the United States wants to see removed, and their permanent removal will only be possible if America itself removes the causes which generated them. America, in effect, faces a problem which is exactly the opposite to Britain's: while Britain has to build up her export trade in order to pay for the imports which are essential to her prosperity, the United States will have to purchase more foreign goods if it wants to maintain its exports at a high level. This is admittedly a long-range problem, since for a considerable time to come the United States will be able to finance its export surplus by lending dollars to its customers. In fact, large-scale American lending will be a vital contribution to post-war economic reconstruction and the revival of world trade. A heavy American export surplus in the transition period will merely reflect a physical reality of the post-war world economy: America's ability to produce, in excess of its own consumption, goods which are badly needed by other countries whose economies have been dislocated by the war. The United States Government has prepared for this period a programme of foreign lending which is to provide other countries with the dollars they need for their purchases in America, and execution of this programme will soon build up a formidable new international debt to the United States. Beyond the transition period, when other countries have recovered their ability to produce and export, America will be faced with the inescapable dilemma of a creditor country: to supply its debtors with more dollars by purchasing more of their goods (or, putting it differently, to accept payment of debt charges in kind); or else to accept a curtailment of its own exports. The third possibility is more or less theoretical and need only be mentioned for the sake of completeness: America could keep on lending, on a massive and increasing scale, to provide sufficient dollars both to pay

for its export surplus and to meet debt obligations, which will grow steadily as the principal sum of the debt to America increases.

Failure by the United States in the past to draw one or the other consequence from its creditor status had a great deal to do with the pre-war ailments of the world economy, and the best guide to an understanding of the problems whose recurrence must be avoided in future is provided by American balance-of-payments experience in the inter-war period. An admirable analysis of this experience is contained in a United States Government publication, which by its incisive criticism of the American record in international trade and finance gives a convincing answer to those who maintain that the United States will never see the beam in its own eye. This report, "The United States in the World Economy", published by the Department of Commerce in 1942, examines the problem by comparing the "supply of dollars" by the United States with the "use of dollars" by other countries in the 1919-1939 period.

Taking the period as a whole, and the balance of all types of transactions through which dollars are supplied and used, their supply fell critically short of the amount required by foreign countries to pay for imports from America and meet their interest and repayment obligations on American loans. The flow of gold to the United States in the 'thirties was the most striking symptom of this shortfall, but it had many more important though less spectacular consequences. In the words of the Department of Commerce, the United States' foreign economic policy in the past was pursuing the "manifest impossibility" of having it both ways: it attempted to combine a large volume of dollar receipts with a small volume of dollar payments.

The fact that all through the inter-war period the United States persisted in selling more than it bought, and that the export surplus was not fully offset by an excess of payments over receipts on "invisible" current transactions would not in itself justify the charge that America abused its creditor status. There is no reason why a creditor country should not maintain an export surplus, or even a favourable balance on all its current transactions, provided that it steadily augments the supply of its currency by capital exports. This is what the United States did throughout the 'twenties, and even though the scale of its capital exports was not fully sufficient to close the gap, they were large enough to maintain a somewhat precarious balance. The export surplus only became unjustifiable when American lending ceased, which happened at the worst possible moment. From 1924 onward American capital exports increased steadily to a peak of 1.6 milliard dollars in 1928, and then dropped to little over one milliard in 1929 and 1930. By the latter year the total of American long-term capital invested abroad had exceeded 15 milliard dollars, and the United

States collected nearly 1.2 milliard dollars in interest, dividend and amortisation payments on its foreign assets—more than the amount of new American investment in the same year. In other words, even at the still formidable annual rate of one milliard dollars the outflow of American capital was no longer sufficient to offset the return flow of dollars in payment of obligations arising from earlier lending, and it contributed nothing towards financing the export surplus. However, there was worse to come, since under the impact of the economic collapse at home and deteriorating conditions all over the world, American lending was heavily curtailed in 1931, and virtually discontinued in 1932, when the outflow of long-term capital dried up to a mere trickle of 87 million dollars. This cut off one of the two principal outlets for the supply of dollars to the outside world. Their other main channel, American import purchases, had been severely throttled even earlier. As we have seen, American imports were highly sensitive to fluctuations in domestic industrial activity, and when the boom of the 'twenties collapsed, they fell precipitously from 4.4 milliard dollars in 1929 to 1.3 milliard in 1932. As American imports predominantly consisted of raw materials, and raw material prices suffered a catastrophic collapse in the depression, the value of imports, and with it the supply of dollars, contracted even more heavily than their physical volume. United States exports also declined, from 5.2 milliard dollars in 1929 to 1.6 in 1932, but they remained in excess of imports, although the export surplus dropped from 840 to 290 million dollars. Thus, America's debtors and customers were faced with the impossible proposition of having to find enough dollars to meet their debt obligations, and at the same time to pay for what they bought from America in excess of what they sold to her. A policy of enlightened self-interest should have induced the United States at this stage to give the others an opportunity of earning more dollars by buying more of their goods. Instead, the United States hung on grimly to its export surplus, and to make things worse it raised its import tariff in 1930. This was one of many ill-advised defensive measures which most countries were adopting at that time to combat their unemployment problems. The American move cannot be proved to have benefited American industry in the least, and as a measure of commercial policy it was absurd for a country which at the same time was trying both to retrieve its debts and to promote its exports. In any case the American tariff had been near-prohibitive, even before the increase, for most classes of manufactured goods, and the fact that most American import duties were fixed as specific charges on a given quantity of the imported product tended to make them particularly burdensome at a time when prices were at a low ebb.

The first conclusion which emerges from the experience of the late

'twenties and early 'thirties is that a substantial proportion of American export trade was financed by simultaneous American lending—a foundation of which the insecurity was revealed only when it collapsed. Responsibility for the collapse of American lending was shared by lenders and borrowers alike. Foreign investment was a new type of business for the United States, and lack of experience resulted in liberal and indiscriminate lending without regard to the elementary principles of sound investment. Foreign countries took advantage of the easy access to dollar loans, and Germany in particular financed a fair proportion of her reparations payments by borrowing in America. Much American money was spent on totally unproductive or highly speculative projects. "Stadium loans" was a phrase commonly used in Germany, where a city which was unable to finance a new sports ground or other municipal amenities out of its budget could easily get the funds by borrowing in the American market. A good deal of the money lent returned to the United States as purely speculative funds, attracted by the prosperity of the 'twenties and particularly by the stock exchange boom which preceded the crash of 1929.

The second conclusion takes us back to what was said above about the close connection between domestic economic fluctuations in the United States and its foreign transactions. The Great Depression had the twin effect of throttling the supply of dollars through American import purchases as well as through investment, at a time when a maintained supply would have considerably mitigated and shortened the world crisis. It is a generally accepted axiom of any national full employment policy that a slump in business activity should be the signal for an expansion of government spending and not a curtailment. This axiom applies equally to the international full employment policy which the United States preaches today. In the Great Depression American international transaction behaved in exactly the opposite manner, not so much by design as due to the lack of any positive foreign economic policy. It is one of the obligations arising from America's position of economic world leadership that this performance must not be repeated again.

From 1932 up to the outbreak of the European war America's foreign transactions remained under the shadow of the collapse of its expansionist policy of the 'twenties. The heavy pressure of dollar obligations after the sudden throttling of dollar supply had forced many countries to adopt foreign exchange controls and import restrictions to husband their dollar resources, and the United States was hard put to retrieve the money which it had lent in the preceding period. Throughout the 'twenties the net movement of capital had been out of the United States, but now the trend was reversed, as the repayment of old loans was greatly in excess of the trickle of new lend-

ing which averaged a mere 68 million dollars a year in 1932-39. During the same period the return movement of long-term capital exceeded the outflow by a total of 2.5 milliard dollars. This amounted to a liquidation of a substantial portion of American investments abroad. United States net long-term foreign assets—that is, total assets minus foreign long-term investments in the United States—were reduced by more than one-half between 1933 and 1939, declining from 9.5 to 4.5 milliard dollars.

The heavy strain which this liquidation imposed on the dollar resources of America's debtors was intensified by the behaviour of short-term capital in this period. During the boom of the 'twenties the United States had attracted foreign speculative funds, a movement which was more than offset, however, by the simultaneous expansion of American short-term credits. Both movements were suddenly reversed when the collapse came—foreign "hot money" pulled out, and American balances abroad were called in, although a large proportion of them was trapped by foreign exchange restrictions (40 per cent. of American short-term funds were held in Germany). In 1934, however, foreign liquid funds resumed their movements to the United States. The devaluation of the dollar attracted foreign funds, especially from France and other countries still clinging to the gold standard, and the political troubles brewing in Europe released a rush of "flight capital" seeking the protection of the dollar. In 1934-39 more than 3 milliard dollars of foreign liquid funds moved to the United States, and when the European war broke out net foreign short-term assets held in the United States totalled 2.5 milliard dollars—that is, they cancelled out more than half of its credit position on long-term capital account. The rush of short-term capital did not bring any benefit to the United States—where most of the money was held idle in banks or was used in stock exchange speculation—but it did great harm to the countries where it originated, by adding to their currency troubles and withdrawing funds from their own economies.

Largely in consequence of the defensive measures adopted by foreign countries to cope with the dollar shortage, American foreign trade was slow to recover from the depression. It never regained more than two-thirds of its 1929 peak level, and lagged behind the recovery of domestic conditions in the United States. It also failed to keep pace with the recovery of world trade as a whole—a symptom of the growth of bilateral and preferential trading and other restrictive and discriminatory practices to which the world had turned, much to America's annoyance, but in part at least because of its own conduct in the past. United States exports responded better than imports to economic recovery, and its balance of trade remained favourable. The export surplus was much more moderate than it had been in the

'twenties, averaging 250 million dollars in 1933-37, and in 1936 American imports very nearly balanced exports. As American out-payments on other current accounts—"invisible" transactions—exceeded receipts by an average of 240 million dollars during the same five-year period, the current accounts of the United States were virtually balanced. The maladjustment of the American balance of payments was now almost entirely on capital account, where the movement, as we have seen, was now into the United States instead of out of it as in the 'twenties. However, this period of balance on current accounts proved short-lived, for the export surplus rose steeply in the last two pre-war years, exceeding even the 1929 peak with 1.1 milliard dollars in 1938. This time, however, it was European rearmament which was chiefly responsible for its increase, although another slump in American business activity contributed its share by reducing imports.

The net inflow of capital, both long-term and short-term, into the United States in the six years from 1934 to 1939 amounted to roughly 6 milliard dollars. As we have seen, the supply of dollars during this period was barely sufficient to cover current dollar expenditure of foreign countries on imports from the United States, payments for services and transfer of interest and dividends. Therefore, the 6 milliard dollars transferred on capital account had to be balanced by gold shipments to the United States on a massive scale The net inflow of gold in 1934-38 was nearly 7 milliard dollars, which increased the American share in the world's stock of monetary gold from one-third to three-fifths Shortly before the outbreak of war, the movement of gold was swelled by the transfer of gold reserves by European governments, and the 3 milliard dollars' worth shipped in 1939 very largely represented such transfers, but for the period as a whole the reflux of American capital, and the rush of foreign short-term funds to America, were the major factors responsible for the gold movement.

The outbreak of the European war, and the cash-and-carry period which preceded Lend-Lease, brought home to the outside world, and Britain in particular, the full significance of the dollar problem. To pay for its purchases in America, Britain had to reduce its dollar and gold reserves from 2 milliard dollars in September, 1939, to barely 300 million dollars just before the advent of Lend-Lease, and to liquidate 800 million dollars' worth of investments in the United States. After Lend-Lease had shelved the dollar problem for the duration, American exports were only limited by production capacity and shipping space, and by 1944 their value reached 14 milliard dollars—an astronomical figure by peacetime standards. A heavy slump was inevitable with the end of the war and of Lend-

Lease, but in the fourth quarter of 1945 exports started climbing again to an annual rate of over 7 milliard dollars. The world-wide need for American foodstuffs and reconstruction supplies is expected to raise the 1946 export value above the previous peacetime record, reached in 1919 with 7.9 milliard dollars, and the excess of exports over imports will be close to the 4 milliard dollars recorded in 1919. During the first few years after the end of World War I United States exports declined heavily from their inflated postwar level, while the volume of world trade as a whole was increasing. A similar course is likely this time, although American industry will undoubtedly, and quite legitimately, endeavour to keep up the highest possible rate of exports. There is no criterion by which the optimal and mutually most beneficial volume of the American contribution to world trade can be assessed, but since the United States, like everybody else, expects to be paid for what it sells, the volume of its exports will in practice be limited by the amount of dollars which it makes available to the outside world.

We have examined above the flow of dollars to the outside world through the two main channels—current expenditure on the purchase of goods and services; and the export of capital. On a realistic assessment, the prospects of expanding current expenditure sufficiently to offset exports anywhere near their present level are none too promising. American imports, the chief source of current dollar supply, will consist mainly of raw materials, as they did before the war. Demand for raw materials will be determined by the rate of industrial activity, and even in an expanding "full employment" economy the rate of expansion would set the pace for raw materials imports, but would not enable them to increase faster. Manufactured goods might respond more actively to an increase in American domestic purchasing power, but not as long as their imports are confined to narrow limits by a prohibitive tariff. A reduction of this tariff would be a great service to world trade as a whole as well as to American exporters, since it would contribute towards a better balance between United States sales and purchases. The importance of the contribution would depend, of course, on the extent of the tariff reductions, which would have to be sweeping indeed to lessen significantly the preponderance of raw materials in the American import structure. American Government spokesmen have repeatedly stressed that the United States intends to take the lead in the all-round reduction of tariff barriers proposed in its agenda for the International Trade Conference. As a first step, the programme of reciprocal trade agreements, which was initiated in 1934 and interrupted by the war, has been resumed, and Congress has increased the authority of the President to reduce tariffs in new agreements

beyond the limits set by the pre-war Trade Agreement Act. The effects of this programme are bound to be gradual, and the extent to which the United States lowers its tariff wall will depend in the last resort on the Administration's ability to overcome the political forces of protectionism. American "invisible" imports also show few signs of a significant expansion above the pre-war level. On the contrary, payments for foreign shipping services, which were one of their chief components before the war, will probably be reduced by the war-time expansion of the American merchant fleet. Even though its tonnage—which had increased from 12.1 million tons deadweight in 1939 to 56.8 in 1945—is now being drastically reduced, the United States intends to keep enough to carry about 50 per cent. of its foreign trade in American-flag vessels, instead of 25 per cent. before the war.

In short, there is no sure indication at present that the current outflow of dollars can be expanded sufficiently to balance an export volume much greater than before the war. Yet, American public and private statements envisage a considerable increase in exports as an indispensable corollary of a full employment policy for the United States. Henry Wallace, former Vice-President under Roosevelt and now Secretary of Commerce, has suggested that the United States, with a fully employed economy, reduced tariffs, and set in a peaceful world, could maintain exports at an annual rate of 14 milliard dollars—a rate so far only achieved in 1944, when Lend-Lease supplies accounted for more than 80 per cent. of American exports. Exports at such a rate, according to Wallace, would require a current American expenditure on visible and invisible imports of 8-9 milliard dollars, American lending at a rate of 2-4 milliard dollars a year, and liquidation of foreign funds in the United States (presumably as long as they would last) at a rate of 1 milliard dollars*. Wallace's target figures are set extremely high, but unless and until America opens its door much wider than ever before to imports of foreign goods, even a much more modest level of exports would call for American capital exports on a massive scale.

The foreign economic policy at present pursued by the United States Government, in fact, embodies the provision of dollars by loans and investments on a scale greater than that achieved in the 'twenties. There is one important difference between this foreign investment programme and the outflow of American capital after World War I. The United States is determined this time to plan and regulate its capital exports in a manner which would have been unthinkable after 1919, when an American Secretary of the Treasury wrote:

* Henry A. Wallace, "Sixty Million Jobs", New York, 1945.

> "The Governments of the world must now get out of banking and trade. . . . Such things as international bond issues, international guarantees, and international measures for the stabilisation of exchange are utterly impracticable."*

After this war the governments of the world are getting into banking with determination, and the United States government has taken the lead in this process. In the initial post-war stage the principal vehicle of American foreign lending is the Export-Import Bank, whose lending powers depend on Congress authorisation. Its loans are ear-marked for expenditure in the United States, an important deviation from the multilateral principle propagated by American long-term policy. By the end of 1945 the Export-Import Bank had granted loans totalling more than 1.5 milliard dollars, and it is authorised to lend a further 3,250 million dollars in 1946 and the first half of 1947. Another 3,750 million dollars has been placed at Britain's disposal by the Anglo-American loan agreement, which has a special status in the American lending programme, since both the size and the terms of the loan acknowledge Britain's key position in determining the future of the world economy as well as America's vital interest in the British market.

Beginning with 1947, primary responsibility for channelling the outflow of American capital will pass to the International Bank for Reconstruction and Development, whose total lending potential with its present membership will be in the neighbourhood of 7,500 million dollars. Much of the Bank's operations will, in effect, be American lending under an international label, since the great majority of loans made or guaranteed by the Bank will be raised in the private capital market, which nowadays is almost synonymous with the American market. In contrast to Export-Import Bank loans, those of the International Bank need not be spent directly in the United States.

Between them, the Export-Import Bank, the International Bank, and the loan to Britain make provision for investment abroad by the United States within the next few years of a sum aggregating some 14 milliard dollars—more than the 11.6 milliard dollars invested in 1919–39. The fact that this formidable wave of American lending will flow through orderly channels, under close United States government control, and, in part, under international supervision, is a good guarantee in itself that some of the worst mistakes of the 'twenties as regards the choice of investment risks and the timing of American lending will not be repeated. However, the lending programme does not provide a long-term solution to the American balance-of-payments problem. Every loan, however productive its purpose and however reasonable its terms, creates interest and repayment obligations, which have been

* "The United States in the World Economy": U.S. Dept. of Commerce, p. 139.

estimated at nearly one milliard dollars for the total lending programme contemplated by America. America's debtors and customers could only meet these obligations, and simultaneously find enough dollars to pay for a heavy American export surplus, if the rate of new lending was stepped up year by year, and this can obviously not be done indefinitely. It will be up to the United States to use the breathing spell provided by the lending programme to adopt a policy which, to quote Henry Wallace again: "will make foreign trade a permanent two-way street—not a temporary détour to a precipice". America may decide to narrow the street and balance its trade by accepting a lower level of exports, or it may widen it by taking more imports, but it must not once again attempt to evade the choice between these alternatives.

Introduction to

"THE EMPIRE AND WORLD TRADE"

THE inter-war years saw a considerable increase in trade between Britain and the rest of the Empire; this increase was largely responsible for saving some of Britain's export trades from complete collapse. The short-term gain to Britain of the Ottawa system is almost beyond dispute, but it is not so clear now, either that that system coincides with the interests of the Empire or with the present interests of Great Britain. It is necessary, as Dr. Buchanan points out, to remember that the Empire is not a homogeneous entity. First there are the Dominions, which have grown up with a strong protectionist tradition and are bent on fairly rapid industrialisation and on the achievement of more "balanced" economies. Secondly, there is the Colonial empire, dependent almost entirely upon tropical agriculture and upon mining. Thirdly, there is India, which although still essentially a rural community, has started upon the road to industrialisation and has greatly quickened its pace along that path in the Second World War. All three Empire groups are great traders—sometimes in harmony with British interests, sometimes in competition with them.

In 1938 the Empire was responsible for one-third of the world's international trade and Britain's share in that quota was declining. The war has emphasised this tendency, and has shown that in some areas and for some products Britain's main competitors include such parts of the Empire as Canada and India. It is fast becoming clear that the full development of the Empire requires a trading area much wider than itself.

Section 2

THE EMPIRE AND WORLD TRADE

By R. Ogilvie Buchanan

THE question may well be asked why in such a book as this separate treatment is accorded to the British Empire. In normal times trade between any one part of the Empire and any other is financed and controlled in exactly the same way as trade with any foreign country, and is subject to precisely the same kinds of limitations. In the strict economic sense there is indeed no British Empire at all. Equally, however, there is no British Empire in any strict legal or political sense, and yet in two consecutive world wars the overseas areas embraced by the term have given a demonstration of political and military solidarity not surpassed by any unitary nation. Similarly, despite its international character, trade between the United Kingdom and its overseas "dependencies", which had long been a major element in the economic health of the mother country, became in the pre-war years of the nineteen-thirties the undisputed dominant element, largely responsible for saving the export industries of this country from complete collapse. The character, magnitude and direction of the trade of the Empire is, therefore, worth some study, no less for its implications for the future than for its importance in the past.

Clear ideas on Empire trade imply clear ideas on the Empire itself, but, understandably enough in the circumstances, such ideas are rather conspicuously lacking in the intellectual equipment of the average man. This Empire of ours is a loose agglomeration of more than sixty political entities, scattered in large areas and small on all the continents, over all the seas, and in almost all latitudes, aggregating an area of approximately thirteen million square miles (equal to a third of the habitable land of the globe), and supporting some 540 millions of people (about a quarter of the total population of the world). Size, discontinuity and variety are the keynotes, with the emphasis perhaps on the bewildering diversity of climates, products, races of man, and stages of political and economic development. So some preliminary simplification of the complexity is desirable, to the end of bringing the major features into better focus.

A first distinction, of cardinal importance in trade matters, is between those countries that are completely self-governing and those

that are not.* These latter may be further divided into India and the Colonial Empire. Table I indicates the orders of magnitude of area and population of these great divisions.

TABLE I.—British Empire: Area and Population

	Area	Population*, 1938	
	000 Sq. Miles	000,000	Per Sq. Mile
United Kingdom	94 3	47·48	503·6
Eire	27 1	3 0	111·1
Canada	3729·7	11 2	3 0
Australia	2974·6	6·93	2 3
Union of South Africa ...	473·1	10 0†	21·1
Southern Rhodesia	150 3	1·4†	9·3
New Zealand	103·6	1 6	15·4
Newfoundland	42·7	0·3	7·0
India	1575·2	380 5	241 6
Colonial Empire	2252·0	62·0	27·5

* Estimated.
† Including non-white.

Outside the British Isles the self-governing Dominions are lands of nineteenth-century colonisation by European, chiefly British, emigrants. With the notable exception of the South African countries their populations are entirely white, and together with the British Isles they account for almost the whole of the white population of the Empire. The period of their effective colonisation was that in which the progressive industrialisation of Britain had given rise to the concept (almost, indeed, an article of faith) that the rôle of the colonies was to provide foodstuffs and raw materials for the mother country, and dependable markets for her exports of manufactured commodities. Up to a point events fulfilled that expectation. In the colonies highly selected populations turned to the exploitation of virgin resources with energy, initiative and a marked freedom from the hampering effects of custom and tradition, to such effect that by the early years of the twentieth century primary production, as, for example, of timber or wheat in Canada, wool or wheat in Australia, lamb or butter in New Zealand, or gold in South Africa, had been "industrialised" to a degree previously parallelled only in the great manufacturing industries of the Old World. And it is still true that the high standard of living of the relatively small

* Newfoundland, which has temporarily abandoned Dominion status, and Southern Rhodesia and Ceylon, which have not quite achieved it, are borderline cases. In this essay Ceylon will not be included with the Dominions but Newfoundland and Southern Rhodesia will.

populations of these young communities, no less than their contribution to the economic life of the world, depends to a very large extent on their exports of the products of agriculture, forestry, fishing or mining, either raw or little processed.

That, however, is only part of the story. The acquisition of progressively widening powers of self-government gave the opportunity, in some cases almost from the very beginning of colonisation, to formulate policies for future national development, and to take any measures considered appropriate to translate policy into practice. With the exceptions of Newfoundland and Southern Rhodesia, the Dominions have all followed the model of the United States rather than that of the United Kingdom. The ideal, expressed or implied, is the "balanced economy", and the promotion of that ideal in lands, where for the most part the advantages so conspicuously present for primary production were at best much less in evidence for manufacturing industries, has been expressed in the setting up of industries behind protective walls of varying degrees of rigidity. For our present purpose the wisdom or justice of such protectionist régimes is quite irrelevant. The essential point is that a young industry in a young dominion could be attacked by British no less than by German, American or Japanese competitors, and quite deliberately the defensive tactics of protectionism were employed against competition from all external sources, foreign and Empire alike. In practice (and that long before the Ottawa Agreements) individual Dominions often accorded some measure of preference to goods of British origin, but the degree of such preference was very carefully limited; and it is highly significant that when the Ottawa Agreements were negotiated the United Kingdom was required to recognize explicitly the right, even the duty, of the Dominions to develop their own secondary industries. By the beginning of World War II Canada had gone far along the road to industrialisation, Australia and the Union of South Africa were following some way behind, and even Eire and New Zealand, with their relative lack of resources for the maintenance of large-scale industry, were fostering a certain range of industrial enterprises.

Both the Colonial Empire and India afford striking contrasts with the Dominions. The Colonial Empire includes over fifty administrative units, some of them large (many in Africa), most of them small or very small (chiefly islands), with a total area less than one third that of the Dominions, but a population more than twice as great. These lands, however, lie almost wholly within the intertropical belt, the density of population varies from the 1,600 per square mile of Bermuda down to the 0 5 per square mile of Falkland Islands, and white population is almost restricted to officials, traders,

missionaries, mining engineers and so on, who, once their term of duty is over, retire to their own homeland to spend their declining years.* Broadly, the standard of economic achievement of the native populations is low. Even under European administration the patterns of life and standards of living in vast areas of the Colonial Empire are built upon a somewhat primitive agriculture, producing food crops for direct consumption and contributing little to international trade. Important exceptions are not without considerable significance. Examples are the two great entrepot centres, Singapore and Hong Kong, which have capitalised the outstanding advantages of their geographical position; the areas where European-controlled plantation agriculture has been established, as in Malaya and Ceylon; the still more limited areas where native agriculture has succeeded under British guidance in producing important export crops, such as the cacao of the Gold Coast or the cotton of Uganda, some islands, usually small, where high specialisation on a single export crop has developed, as, for instance, Mauritius with its sugar or the Falkland Islands with their wool; and finally those areas where mineral wealth is being exploited by European enterprise, such as Northern Rhodesia (copper), Gold Coast (gold and manganese), Nigeria and Malaya (tin), Trinidad (oil) and so on. The fact remains, however, that even where great commercial enterprises have been established the amount by which the aggregate native purchasing power has been increased and standard of demand raised remains extremely small judged by any European standard.

So far there has been no basis in prospective manufacturing developments for the growth of protectionist sentiment and practice in the Colonial Empire, but customs duties have been the normal method of raising revenue, and with few exceptions preferences were not accorded to United Kingdom or Empire suppliers of dutiable goods until after the Ottawa Conference. Even then practically the whole of British inter-tropical Africa, including the Gold Coast, Nigeria, Uganda, Kenya, Tanganyika, and part of Northern Rhodesia, was covered by treaties or agreements which prevented the introduction of imperial preferences.

The Indian Empire occupies a unique position. Its continuous land mass of over one and a half million square miles (not including Burma) carries a population of not far short of 400 millions, and thus accounts for almost three-quarters of the total population of the whole of the British Empire. Traditionally India's teeming millions have been engaged in a subsistence agriculture that provided the vast majority of them with a living little above starvation level. The intro-

* Obvious exceptions are Kenya and Nyasaland, which have small settled white populations.

duction of such plantation crops as tea and coffee, the enormous development of perennial irrigation in the drier areas, the building of great railway systems and the improvement of medical and sanitary services have done much to alter conditions of life, especially in the last two generations or so. Agricultural production has increased, its reliability has been improved and the risks of famine have been reduced, while large quantities of agricultural produce have been made available for export. Industrialisation has begun, and India's cotton and jute crops provide raw materials for industries that are already of world significance. The coal and iron resources are limited and severely localised, but occur sufficiently close together to form a technically convenient basis for a developing iron and steel industry. Up to the present the increased productivity has gone to the support of an amazing increase of population, while the standards of living of the masses seem to have improved little, if at all. Today more than three-quarters of the total population is still rural, depending directly upon the fruits of a soil taxed almost to its uttermost, and industrialisation has very far to go before it does more than scratch the surface of the problem of so raising general standards of living as to convert the potentialities of the Indian market into values that would be commensurate with its physical size.

India, like the Colonial Empire, has not yet achieved responsible self-government, but the Government of India has long pursued a fiscal policy designed for the benefit of India itself, and not for that of the United Kingdom. Prior to 1932 some preference was given on cotton piece goods and on certain classes of protected iron and steel goods, but otherwise British goods in the Indian market had to meet open competition. Here, as elsewhere, the Ottawa Conference, born of the terrible depression of 1930 and 1931, resulted in a considerable extension of the range of British goods on which preference was granted, and these preferences were further extended to certain of the Dominions.

Against this very general background it should now be possible to appreciate some of the characteristics and trends of Empire trade, and we shall begin by considering its amount. Table II gives a bird's-eye view of the aggregate values involved in two sample years, the year 1929 being selected as in general the peak year before the onset of the great slump of the 'thirties, and 1938 as the latest year unaffected by the war. By 1938 a considerable measure of recovery had been made from the trough of the depression in 1931-2, but price levels and aggregate values were still generally lower than those of 1929.

From our present point of view the differences between 1929 and 1938 are irrelevant. The essential fact in both years is the very large values involved. They amount indeed to not less than one-third of the

value of the whole of the trade of the world. Even more striking is the individual supremacy of the United Kingdom, whose 47 millions of people conducted a trade that only in the nineteen-thirties fell below the aggregate of all the rest of the Empire put together. Even in 1938 it still amounted to 70 per cent. of that aggregate. This was the position built up on early and intensive industrialisation, the development of shipping and financial services with world-wide ramifications, and the long-continued export of surplus capital. Britain had become the world's great creditor nation, her shipping and financial services and

TABLE II.—Summary of Total Trade of the Empire, 1929 *and* 1938.

	1929 £000			1938 £000		
	Exports	Imports	Total	Exports	Imports	Total
United King.	839,051	1,220,765	2,059,816	516,789	919,509	1,436,298
Dominions ..	594,283	598,219	1,192,502	523,925	570,381	1,094,306
India	239,069	180,570	419,639	122,093	114,248	236,341
Colonial Emp.	278,572	302,438	581,010	361,161	342,164	703,775

N.B.—The figures for the Dominions are obtained by adding together the figures for the separate Dominions. They do not, therefore, refer to net trade of the Dominions with non-Dominion areas, and so are not strictly comparable with the figures for the U.K. and India. The same limitation applies to the figures for the Colonial Empire.

her overseas investments brought in an annual income of some £400,000,000 a year over and above the payments for her current exports, and these interests were in the strictest sense international, foreign as well as imperial. Clearly this state of affairs set narrow limits to the power of the country to implement a policy of Empire Free Trade or even of thorough-going Imperial Preference. Conversion of "The World's Best Customer" into merely the Empire's best customer carried all too plainly the prospect of an inevitable and drastic decline in the prosperity of its industrialised and urban population.

What has not been so widely understood is that the Dominions too, are mighty trading nations. Expansion of their trade in the twentieth century has been proportionately more rapid than that of the United Kingdom, and by the outbreak of World War II their aggregate trade amounted to about three-quarters of hers, though their populations were still only half of hers. Canada alone had by 1937 attained fourth place for exports, eighth for imports and sixth for total trade among the nations of the world. Both the absolute figures and the relative rate of growth would seem to imply a high degree of specialisation of production on commodities for export, and the devotion of a large part of the national capital, labour and

natural resources to that end. In fact wide differences of economy from one Dominion to another have emerged. At one end of the scale New Zealand, capitalising its ample rainfall, brilliant sunshine and mild winters, has specialised on permanent-grass farming which supports animals that provide 94 per cent. of the total exports of the country. At the other end of the scale Canada derives only a minor part of her exports from the far-famed prairie wheat lands. Increasingly she has exploited the forest, mineral and water power wealth of the Canadian Shield, as well as the Great Lakes connections with American coal and iron ore, to equip herself to export her raw materials in more or less completely manufactured form. By 1938 two-thirds by value of Canadian exports were of fully manufactured goods, while fully manufactured and partly manufactured together accounted for three-quarters of the total. Australia and the Union of South Africa are intermediate between these two extremes. From each the exports are overwhelmingly of little-processed primary products, pastoral and agricultural (especially wool and wheat) from Australia, minerals (outstandingly gold) from South Africa. In all these three Dominions the recent pressure of urgent war requirements has considerably extended the range of manufacturing activities—and not all of these war-founded industries will vanish now that the immediate urgency is over.

This general picture of the importance of the trade of the self-governing countries of the Empire is sharpened if the trade is expressed in values per head of population. Table III gives such values for 1929 and 1938, and it should be noted that the broad effect, though not the precise figures, would have been the same at any time this century. These per head values are remarkable. They demonstrate

TABLE III.—Trade per Head of Population, 1929 *and* 1938.

	1929	1938
	£ s d	£ s. d.
United Kingdom	43 7 8	30 5 0
Canada	56 15 8	34 12 2
Australia	40 15 2	32 5 1
Union of South Africa*	22 19 2	20 4 5
New Zealand	70 7 1	77 5 7
India	1 19 5	19 7
Colonial Empire	8 12 10	11 7 4

* For total population. Reckoned for European population alone the values become:

1929: £102 11s 4d.
1938: £96 18s 11d.

beyond all possibility of doubt that for the Dominions, no less than for the United Kingdom, overseas trade is not merely a means of adding a slight fringe of luxury or semi-luxury goods to the every day necessaries produced at home. Their exports are sold in the world market to obtain a significant fraction of just those necessaries, and imports form a by no means negligible part of the daily consumption of every citizen. The extent of this dependence on sea-borne trade is not exceeded anywhere else in the world, though Japan (before the war), Norway, Denmark and Holland approximated to it.

Tables II and III display a very different state of affairs in the Dependencies. The aggregate trade of India and the Colonial Empire is of the same order of magnitude as that of the Dominions, but the trade per head of population is relatively low, in India very strikingly so. It is to be remembered that the value given for the trade per head of the Colonial Empire is an average computed for a very heterogeneous collection of colonies, and here we may return to a point which has already received passing mention, namely that trade activity in the Colonial Empire is very unequally distributed among the constituent parts. Some few and limited areas live just as much on their external trade as do the United Kingdom or the Dominions. The great entrepot ports in South-East Asia (Hong Kong, Singapore and Penang) are excellent examples. Each of them maintains a constant and heavy flow of commodities that figure both as imports and as exports. From Singapore and Penang domestic (i.e., Straits Settlements) exports are very minor, and Hong Kong, with a trade per head of £117 5s. 6d. in 1938, has effectively no domestic exports at all. Even more striking are the Falkland Islands, where a tiny, isolated community, specialising exclusively on the rearing of sheep, supported a trade in 1938 of £459 8s. 3d. per head. Bermuda, with visible domestic exports of little more than £1 per head, contrived to make its tourist trade pay for imports of over £70 per head. Trinidad owes its per caput £30 to the exploitation of its oil resources. Practically all the rest of the colonies had an external trade per head of less than £20 per year, in some twenty of them it was less than £10 per year, and in more than half of those twenty it was less than £5. In assessing the value of these facts it is well to remember that the low-trade areas make up by far the bulk of the area and the population of the Colonial Empire, and that Malaya and Hong Kong by themselves account for almost two-thirds of its total trade.

The obvious deduction, good for both India and the Colonies, is the enormous scope for increase of trade that is implied in these low per caput figures. Even a slight rise in the standard of living, multiplied by the hundreds of millions of the populations concerned, would add many millions of pounds sterling to the aggregate annual

import requirements. Expansion of trade and improvement of living standards have elsewhere been most effectively promoted by the development of manufacturing industries as in Great Britain, or of highly specialized agriculture, as in New Zealand. In the Colonial Empire there seems small prospect of any significant development of manufacturing industries, except perhaps in Singapore and Hong Kong, where its stimulus is in fact least required. It is rather in the commercialising of agriculture that the solution will be found, but very great care will be necessary in putting such a policy into effect. The history of hastily and unwisely exploited areas in the United States, Africa and elsewhere is too painfully clear to leave any doubt about the dangers involved. The millions of acres of once productive land that have had their soil completely stripped from them by man-induced erosion are effective testimony to the fact that the short-term risks of commercial crisis are paltry compared with the long-term risk of the destruction of productivity. There is, however, much knowledge available of the nature of soil-erosion, of its cure and its prevention, and, given a reasonable modicum of wisdom in the British administrators of the Colonial Empire, much further development can be undertaken safely. In India, on the other hand, where agricultural progress has already contributed much, and will no doubt contribute still more, quicker results seem likely to follow from continuing the expansion of manufacturing industry. In neither case are rapid and spectacular results likely, but an upward trend of productivity, persistent if not abrupt, and a continued increase in the absorbing power of these potentially immense markets may reasonably be expected.

The directions taken by the external trade of the constituent parts of the Empire owe much to the ideas and to the conditions prevalent in nineteenth-century Britain. The Colonial System, under which the kind, amount and direction of the trade of a colony were prescribed by the mother country, was already discredited and largely abandoned. Coercion of the Colonies had become a deadly sin, and even benevolent guidance was suspect. Further, in an era of currencies convertible into or linked to gold, stable exchanges and multilateral trading provided an easy, almost automatic, means of balancing international indebtedness. Every colony, therefore, was free to sell where it could and buy where it pleased, and with some of them trade with the United Kingdom counted for relatively little from the beginning. Newfoundland found its main markets for its fish in the Catholic countries of Europe and South America. Hong Kong and the ports of the Straits Settlements built up an enormous trade with the adjacent Asiatic mainland and islands, to such effect that over 80 per cent. and 70 per cent. of their respective totals is with foreign countries. Zanzibar,

when it became a British Protectorate, continued and still continues to exploit the Indian Ocean connections it had formed in the days of Arab dominance. More usually the trade of a new colony was dominantly with the United Kingdom. Sentiment, no doubt, played a part—British settlers in the temperate zone colonies and officials and traders elsewhere were naturally biased in favour of their own mother country—but the basic fact was that Great Britain was the only country capable of absorbing all their surplus primary production and of supplying all their deficiency in manufactured commodities. The Free Trade policy that had won its victory there by the middle of the nineteenth century was a recognition of that fact, and it assured the overseas dependencies of unrestricted access to Britain's expanding market, even if in strict trade matters it prevented their being differentially favoured.

As events proved, that was a passing phase. Production of the great primary staples of the temperate zone colonies began to outstrip the capacity of the British market, where the expansion of industrialisation and the increase of population were both slowing down. Other countries, notably the United States, Germany, Italy, Belgium and Japan, were reducing their industrial leeway and becoming internationally significant both as markets and as suppliers. By the beginning of the twentieth century the new pattern of Empire trade was taking shape. The United Kingdom remained in most instances the chief single market and supplier, but her share of the total Empire trade, and particularly of the total Empire market, was declining. In the Dominions and Dependencies as a whole geographical relationships were more and more expressing themselves in regional trading. This is best seen in the West Atlantic, where Newfoundland, Bermuda, the Bahamas and, to a less extent, the rest of the West Indian colonies, had been pulled in to the North American orbit. Canada has a dual character. On the one hand she has become a "commercial colony" of the United States, from whom she draws more than three-fifths of her imports, and to whom she sends over a third of her exports; on the other hand, she is in her own right a major market and supplier for the British islands of the West Atlantic. Australia and New Zealand were similarly developing their trade with Eastern Asia and North America, and to a smaller extent with each other. Apart from trade with the United Kingdom, inter-Empire trade has so far remained relatively small. The Dominions require little from each other and their absorbing capacity for the products of the Colonial Empire is not yet great in aggregate. It does, however, account for the bulk of "Rest of the Empire" trade of India and the Colonial Empire. Tables IV, V, VI and VII give a summary view of the general position in recent years, using 1929 as a not too untypical pre-depression year.

TABLE IV (a).—U.K. Exports to Various Areas, 1929 *and* 1938.

Year	Dominions		India		Col. Empire		For. Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	£000	% of Total	
1929	204,643	24·4	77,310	9·2	65,560	7·8	491,538	58 6	839,051
1938	256,998	49 7	34,868	6·7	69,098	13·4	155,825	30 2	516,789

TABLE IV (b).—U.K. Imports from Various Areas, 1929 *and* 1938.

Year	Dominions		India		Col. Empire		For. Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	£000	% of Total	
1929	222,283	18·2	50,490	4·1	86,069	7·1	861,923	70·6	1,220,765
1938	277,639	30·2	41,633	4·5	73,319	8·0	526,918	57·3	919,509

TABLE V (a).—Dominions· Aggregate Exports to Various Areas, 1929 *and* 1938.

Year	To U.K.		Rest of Empire		Foreign Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	262,547	44 2	61,998	10·4	269,738	45·4	594,283
1938	277,639	53·0	47,221	9 0	199,065	38 0	523,925

TABLE V (b).—Dominions. Aggregate Imports from Various Areas, 1929 and 1938

Year	From U.K.		Rest of Empire		For. Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	204,643	34 2	46,189	7·7	347,387	58·1	598,219
1938	256,998	45 1	69,051	12·1	244,332	42 8	570,381

TABLE VI (a).—India: Exports to Various Areas, 1929 *and* 1938.

Year	To U.K.		Rest of Empire		Foreign Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	50,490	21·7	32,760	14·1	149,849	64·2	233,099
1938	41,633	34 1	22,395	18 3	58,065	47 6	122,093

TABLE VI (b).—India: Imports from Various Areas, 1929 *and* 1938.

Year	From U.K.		Rest of Empire		Foreign Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	77,310	42·8	17,088	9 5	86,172	47·7	180,570
1938	34,868	30·5	31,553	27.6	47,827	41·9	114,248

TABLE VII (a)—Colonial Empire: Exports to Various Areas, 1929 *and* 1937.

Year	To U.K.		Rest of Empire		Foreign Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	56,590	22.5	39,993	15 9	154,509	61.6	251,092
1937	70,162	26.3	43,353	16 2	153,721	57 5	267,236

TABLE VII (b).—Colonial Empire: Imports from Various Areas, 1929 *and* 1937.

Year	From U.K.		Rest of Empire		Foreign Countries		Total £000
	£000	% of Total	£000	% of Total	£000	% of Total	
1929	64,411	24·5	58,547	22·3	139,751	53 2	262,709
1937	74,052	28·3	44,838	17·1	142,942	54·6	261,832

The most recent phase dates from 1930, when the failure to rebuild the pre-1914 economic system culminated in the Great Depression, with its calamitous break in prices. Inevitably it was international rather than domestic trade that was hardest hit, and the United Kingdom and the Dominions, just because their standards of living depended so directly on international trade, were particularly vulnerable. Further, the price collapse was most marked in primary, especially agricultural, products, and these formed the main export items of most of the overseas Empire. Finally, market after market was being closed as multilateral international trade degenerated into bilateral international barter. The situation was desperate, and desperate remedies were required.

This was the background of the Empire Conference held at Ottawa in 1932 to find a basis of mutual aid in the economic blizzard. It has already been indicated that existing interests and commitments limited the extent to which concessions could be granted to one another and barriers be erected against the foreigner. Nevertheless, sufficient community of view was achieved to permit the negotiation over the

next two years of a remarkably complete series of agreements, which instituted by means of tariff rebates on Empire produce and/or quota limitations on foreign produce a very considerable measure of Imperial Preference. The aim was the maximum possible development of Empire markets for Empire produce, and in so far as that meant diverting trade which before the depression had "naturally" flowed in other channels may be regarded ideally as the acceptance of a second best. It is, however, difficult to see what better measures could have been devised in the circumstances.

The comparative figures for 1929 and 1938 in Tables IV-VII need to be used with caution, but they do give some indication of the results of this experiment in formal Empire co-operation. It will be seen that in general the aggregate value of Empire trade was smaller in 1938 than in 1929 (for the United Kingdom and India very much smaller), though the Colonial Empire is exceptional in showing some increase. Of this aggregate the percentage accounted for by Empire markets and Empire suppliers had increased, in most cases very materially, though again the Colonial Empire shows in its imports figures a solitary and very slight exception. In many cases, indeed, despite the lower values of total trade, not only the percentages but also the absolute values of the inter-Empire trade were significantly greater in 1938 than in 1929. Not all of this relative and absolute upward swing of inter-Empire trade can be attributed to the Ottawa Agreements. In some respects and to some degree it represented an accentuation of trends already in existence rather than the introduction of new trends. In any case the virtual closure of the major foreign markets to much of the Empire commerce during the nineteen-thirties would have compelled more and more restriction of Empire producers to Empire markets. It is difficult to avoid the conclusion, however, that the specific arrangements of the Ottawa Agreements did succeed in aiding the development of substitute markets, in arresting the decline of total trade and in saving to a considerable degree the current standards of living of Empire peoples.

It does not follow that the sea-anchor that saved the ship in the storm would be equally useful as a power-unit for the vessel when the storm had blown over. The basic facts are that production capacity of the Empire as a whole is in many important commodities far beyond Empire consuming power, while in others there is a permanent deficiency. This is perfectly obvious and widely understood with regard to some of the great primary products, such as rubber among the surpluses and tin among the deficiencies. What has been more commonly missed is that widespread development of industrialisation has involved enormous interchange among manufacturing countries of manufactured and partly manufactured goods,

In the United Kingdom, for example, before the recent war the imports of articles wholly or mainly manufactured were almost equal in value to those of raw materials and articles mainly unmanufactured. The plain fact is that no country can specialise in everything, that "manufacturing industry" covers an almost infinite variety of types and grades of industry, and that a country in the peculiar position of Great Britain can get the best return for its expenditure of labour and capital by progressive specialisation on the production of goods requiring a high degree of finishing rather than a large amount of raw material. That the trend in Great Britain is in fact in that direction is indicated by the rise to domestic and export dominance of the new light industries and the decline of the old staples of cotton and heavy engineering products.

Both at the raw material, the semi-manufactured and the fully manufactured stages, therefore, the optimum development of the Empire as a whole and of its constituent parts requires a trading area much wider than itself, wide enough indeed to include the whole world. Bretton Woods, emphasised by the implications in the American loan, indicates the acceptance of multilateral world trade as the immediate objective of high policy. The implementing of that policy will require adequate monetary arrangements, backed by coherent, non-restrictive, national trade policies, none of which will be easy of achievement, but which, if and when achieved, can ensure to the United Kingdom and its Empire partners and dependencies an economic prosperity not less than the best it has achieved in the past.

Introduction to

"CONTINENTAL EUROPE AND WORLD TRADE"

LARGE sections of the European economy now stand in ruins, but before the war Continental Europe was the most highly developed trading area in the world. Both before and during Hitler's régime, Germany was the hub of this trade. She absorbed the agricultural surpluses of every country and sent them in return iron and steel products, coal, machinery, chemicals, etc. The question which is still unsolved is how will the parts of this complex get going again in the post-war world?

At the moment the Allies have planned to reduce the level of German industry to approximately 50 per cent. of its 1938 level. This, however, is an overall proportion and the figure includes much greater cuts in German output of steel and heavy mechanical and electrical engineering. This plan inevitably means drastic changes in the European economy and the outline of these changes is already emerging in the East. There the problem has largely been solved by the integration within the Soviet economy of all the Central and Eastern European Powers—the only exceptions for the time being are Greece and Turkey.

In the West it entails the rapid reconstruction and further industrialisation of France so that that country, in conjunction with Britain, can take the place in the West of pre-war Germany. Perhaps the largest single check on reconstruction in the West is the backwardness of the British coal industry and the failure of output in the Ruhr coal mines under British control. If the Allies are determined to push on with the destruction of German heavy industry then Western Europe must consider seriously the possibility of closer economic collaboration and planning.

Section 3

CONTINENTAL EUROPE AND WORLD TRADE

By Michael Hilton

ALL the countries of continental Europe, except the ex-neutrals, have emerged from the war with their trade either broken up entirely, or greatly distorted.

Smashed, and never likely to reappear in its old shape, is the trade of Germany, which was the third largest in the world, and the main source of supply, before the war, for seventeen out of the twenty-four other countries on the Continent.

Continental Europe (which, for the purposes of this article, excludes the U.S.S.R. and includes Turkey) has long been the most highly-developed trading area in the world. With under 4 per cent. of the world's land surface, it accounts normally for about four-fifths of world trade. More than half the total imports and exports of the area are accounted for by intra-trade.

The Continent manufactures goods, principally, and imports large quantities of food and raw materials. It imports more than it exports, and makes up the difference by lending money and selling shipping, banking, insurance, hotel and other "invisible" services.

Nine out of the twenty-five countries on the Continent are highly industrialised. Before the war these nine countries, which, of course, included Germany, did three-quarters of the importing and exporting of the whole area. The other sixteen countries are chiefly agricultural, and are mainly dependent on the rest of Europe for imports and exports. Their importance in the trade of the nine industrial countries is, however, quite small.

An important factor in continental European trade is that some of the countries—France, Holland, Belgium, Italy, Spain and Portugal have (or had) large overseas territories In the decade before the war the tendency was for each mother country to increase the proportion of its total trade conducted with its overseas territories, at the expense, mainly, of non-European countries having no ties of this kind with Europe.

The Ex-Axis

How big was German trade? Where did it go? What kind of German trade, and how much of it, will there be in the next few years?

These are some questions which are fundamental in considering the trade of continental Europe.

First of all, how big? In thinking about this it is more useful to consider how much German trade mattered to other countries, and in particular other Continental countries, rather than to Germany. In Table I are shown the percentage shares by value obtained by Germany in the imports and exports of all the continental European countries and of Great Britain, U.S.A., U.S.S.R., Latin America and the World in 1928, 1935 and 1938.

TABLE I.—Germany in World Trade.

Percentage share of GERMANY in the trade of:	IMPORTS			EXPORTS		
	1928	1935	1938	1928	1935	1938
	%	%	%	%	%	%
CONTINENTAL EUROPE	18	17	19	17	16	17
8 Industrial Countries	18	17	16	16	13	13
France	9	8	7	11	7	6
Belgium-Luxembourg ..	13	13	12	14	10	12
Netherlands	27	26	21	24	19	15
Italy	10	18	23	14	13	17
Sweden	31	24	23	13	14	18
Switzerland .	23	27	23	18	21	16
Czechoslovakia .. .	28	22	17	23	14	15
Austria	20	17	—	18	15	—
Other Continental Europe ..	21	14	25	19	18	25
Denmark...	33	22	25	21	16	18
Spain	10	14	22	7	13	30
Norway	21	17	17	13	13	15
Poland	27	14	20	35	16	20
Hungary	19	24	30	12	25	28
Finland	37	20	20	16	10	15
Roumania	24	24	31	25	17	19
Yugoslavia	14	17	33	12	18	36
Greece	8	19	29	27	30	39
Portugal	13	13	17	12	13	14
Turkey	15	40	47	13	40	43
Bulgaria	21	54	47	28	47	51
Latvia	41	36	39	27	31	34
Lithuania	51	14	24	58	4	27
Estonia	30	26	31	26	23	31
GREAT BRITAIN	5	4	3	6	5	4
U.S.A.	5	4	3	9	4	3
U.S.S.R.	25	9	5	24	18	7
LATIN AMERICA	10	11	15	10	10	12
WORLD	8	8	9	10	8	10

[NOTE.—The above percentages are based on the national trading figures of individual countries, uncorrected to give "frontier values", and may, therefore, be slightly out either way in certain cases. They are, however, sufficiently accurate to give a reliable overall picture of the relative importance of pre-war German trade.]

It will be seen that continental Europe depended on Germany for nearly one-fifth of total imports and 17 per cent. of total exports in 1938. The mainly agricultural countries of the Continent relied on her for no less than one quarter of their imports and exports, rising to nearly half in the case of individual countries.

During the ten years from 1928 to 1938 Germany increased her share in the trade of all the Continental countries except France, Belgium, Holland and Czechoslovakia among the highly-industrialised countries and Denmark, Poland, Finland and Lithuania among the mainly agricultural ones.

The recent political history of Europe is written into the figures shown in this table, as in the fall in Germany's share of Russian foreign trade from one-quarter of the total in 1928 to 6 per cent. in 1938, and the increase in the German contribution to Spanish and Italian foreign trade over the same period. Hitler's need for raw materials, and German economic aggression, are reflected in the increased shares obtained by Germany between 1935 and 1938 in the trade of South-East Europe and Latin America. On the whole, however, what does emerge most strikingly is the comparatively small difference which the advent to power of the Nazis in 1933 made to Germany's overall importance in Continental trade.

If Germany was important for continental Europe, the reverse was also the case, for continental Europe took 57 per cent. of German exports in 1938. Holland, Italy, Sweden, Belgium, Switzerland and France were the six leading customers, in that order. Although nearly half of German imports also were supplied by continental European countries, the United States and Great Britain were the biggest individual supplying countries, providing 12.6 per cent. of total imports between them, with Italy the next largest supplying country. Other leading sources of German imports were Sweden, Argentina, Brazil, Holland and Belgium.

Iron and steel products, machinery, machine tools, chemicals and coal were Germany's principal exports. How will the supply of these commodities, all useful in European reconstruction, be affected by the present decisions on the permitted level of German industry?

At the time of writing (July, 1946), the latest official pronouncement on this subject is the "Plan for Reparations and the level of post-war German economy", which was published in March, 1946, by the Allied Control Council in Berlin.

The main object of this Plan is "a reduction in the level of industry as a whole to a figure about 50 or 55 per cent. of the level in 1938 (excluding building and building materials industries)".

Exports and imports are each planned to be 3,000 million Reichsmarks (at 1936 value) for 1949, compared with exports of RM. 4,768

million and imports of RM. 4,217 million in 1936. Of the proceeds from exports, not more than RM. 1,500 million may be used to pay for imports of food and fodder, and the remainder, after payment for such other imports as may be approved by the Control Council, will be used to pay for the costs of occupation and the provision of services such as transport and insurance.

The target figure for the export of coal, production of which is to be maintained at the maximum, is set at 45,000,000 tons for 1949. This is 152 per cent. of the quantity exported in 1936, and at 1936 prices would have a value of RM. 416 million, or 14 per cent. of the permitted maximum for total exports.

Steel output is at present fixed at 5.8 million tons, and productive capacity is to be reduced to 7.5 million tons, or 39 per cent. of pre-war capacity. Heavy mechanical and electrical engineering capacity is to be 30 per cent. of pre-war, light mechanical and electrical engineering 50 per cent., machine tools 11.4 per cent., basic chemicals 40 per cent., other chemicals 70 per cent., and pharmaceuticals 80 per cent.

Paper and printing, footwear, and textiles and clothing are planned to have 65 per cent., 70 per cent. and 77 per cent. respectively, of their pre-war production capacities.

Industries for which no limit is set, in addition to building and coal-mining, are furniture and wood-working, glass, ceramics, bicycles, motor-cycles under a certain horse-power, and potash.

It will be seen that the Plan, should it prove workable, which is unlikely, would involve the re-make-up and re-distribution of German export trade. Metals, engineering and chemical goods, which were two-thirds of German exports before the war, will not have much left for export after catering for domestic requirements out of productive capacities cut by amounts varying from 11 to 50 per cent. The light consumer goods industries can hardly be expected to make good more than about 10 per cent. of this lost export capacity, and large, entirely new markets would have to be found for their products, against strong competition from other European countries.

One-quarter of Germany's national income before the war was derived from foreign trade. Failure to achieve the necessary minimum of exports to produce a balanced economy in the post-war years would be bad both for European recovery and the pockets of the taxpayers of the occupying powers. Even granted the reduction of the German standard of living to that of the European average (which is one of assumption of the Allied Control Council's Plan), such a failure would be quite probable if the Plan were to be followed through, for in its present form it looks more like a scheme for the impoverishment of continental Europe's most highly developed

industrial area than a guarantee against future German aggression.

The other end of the Axis was a lightweight in trade, compared with Germany. Italy took fifth place in Continental trade normally, contributing about 8 per cent. of imports in 1935, the same as Holland, and about 6 per cent. of exports, slightly less than Holland.

Although she may be rated one of the more highly industrialised countries on the Continent, Italy is much more dependent in her foreign trade on natural products than Germany or the other industrial European countries. In the early 'thirties, for example, she had a net export of foodstuffs, although the cultivated area of her land per head of population was very much lower than in Sweden or France—both countries with net imports of foodstuffs. But in spite of her net export, Italy was never, before the war, quite self-sufficient in food. For the years 1933-37 net imports of wheat, for example, represented about 7 per cent. of home consumption (compared with 6 per cent. in the case of Germany, 58 per cent. in Holland, and 77 per cent. in Britain).

About one-quarter of Italian imports in 1938, which consisted chiefly of coal, textiles, machinery, wheat, coffee and raw materials for industry, were supplied by Germany, with the U.S.A., Britain and Poland the next most important suppliers, in that order. Only 2 per cent. of imports came from the Italian overseas possessions, a remarkably small proportion, probably explained by the fact that Italy preferred to use the products of these territories to obtain foreign currency.

Nearly one-fifth of exports were sent to Germany—the biggest individual customer, but second in importance as a market to the Italian overseas territories. These took as much as 23 per cent. of Italian exports in 1938, compared with 2 per cent. in 1928. Of other countries, the U.S.A. was, after Germany, the main customer, followed by Britain. The combined contributions of Britain, France and Belgium to Italian foreign trade fell from 21 per cent. in 1928 to 10 per cent. in 1938.

Exports normally consisted for the main part of raw silk, rayon fibres, hemp; lemons and other fresh fruit, cheese, wines, almonds, olive oil; sulphur, pyrites, mercury; and industrial chemicals, motor-cars and other manufactures.

Western Europe

The three western neighbours, France, Belgium and the Netherlands, constitute the main industrial area of the Continent outside Germany.

All three countries have important overseas territories, and except in the case of Belgian exports, the mother countries directed a greater

share of their foreign trade towards these territories in 1938 than in 1928, as shown below:

Trade with own overseas territories, as a percentage of total trade, of:	Imports		Exports	
	1928	1938	1928	1938
	%	%	%	%
France	13	27	18	27
Belgium-Luxembourg ..	3	9	2	1
Netherlands	6	9	10	11

France was the fourth largest trading nation in the world in 1938, the value of her foreign trade representing about 5 per cent. of the world total. Imports, of which over 50 per cent. consisted of raw materials for industry, amounted in 1938 to 45.7 milliard francs, compared with exports for that year of 30.2 milliard francs, of which over half were manufactured articles. The adverse balance, which had been normal in French trade since the beginning of the century, was made good by tourist expenditure and foreign investment.

After the French Empire, which as shown above contributed over one-quarter of imports, the U.S.A. was the largest source of supply, followed by Britain, Germany and Belgium. Belgium provided the largest European market for French exports, taking second place as a customer after Algeria, and followed by Britain, with Germany and the U.S.A. taking comparatively much less important shares. France was normally Britain's largest Continental market.

France emerged from German occupation with her economy shattered, both by physical destruction and by the financial and administrative chaos produced deliberately by the Germans. One of the major economic problems of the many which now beset her is how to get enough coal imports with which to operate her industries sufficiently to rebuild her export trade. Total exports in 1945 were valued at 11 milliard francs, of which half went to the French Empire, and imports at 55 milliard francs, of which the U.S.A. supplied 26 milliards and Britain 4.6 milliards. Included in the imports from Britain was under half-a-million tons of coal, compared with more than six million tons of British coal imported in 1938.

The Belgo-Luxembourg Economic Union ranks third in Continental trade, after Germany and France. Belgian trade is similar in many respects to that of France, and in her case also coal constitutes one of the main post-war problems. The collapse of British coal exports, coupled with the virtual disappearance of supplies from Germany, is probably the biggest single factor operating against industrial recovery in western Europe.

France was Belgium's main supplier in 1938, providing 14 per cent. of total imports, and Britain and France were the principal customers, each taking 15 per cent. of exports. About half the total Belgian exports, consisting mainly of metals and their manufactures, textiles, diamonds, chemicals, machinery, leather goods, cement and other manufactured products, went to other Continental countries.

Belgium has been able to make a more rapid recovery than France from the effects of German occupation. This is mainly due to the fact that the Germans wanted to foster Belgian industrial capacity and morale with a view to incorporating Belgian industry into the industrial system of the Reich. In the case of France they did everything possible to disrupt and demoralize.

Holland, fourth largest trading nation on the Continent pre-war, has been harder hit than either France or Belgium, both by the actual effects of war and occupation and by the loss of German trade. In 1938, 21 per cent. of her imports and 15 per cent. of her exports were accounted for by Germany; and the supply of transport services, largely on account of Germany, contributed substantially to the Dutch national income (in August, 1939, for example, carriage of goods in Dutch harbours and across the land frontiers was more than 10.5 million tons, whereas the total of Dutch imports and exports in that month was only one-third of this amount, 3.5 million tons).

The complete wreckage of that part of the European economy which was based on German trade has knocked away the principal prop of Dutch pre-war prosperity, and it is hardly surprising if Holland resents the fact that she is not consulted in decisions affecting the future level of German industry. This has, however, given no pause to the energy with which the Dutch have set about rebuilding their country and restoring its ruined foreign trade. In the latter cause notable trade agreements have been negotiated with the other two industrial countries of the western Continent—a customs union with Belgium, which is later to be transformed into a complete economic union, and an agreement with France, under which Holland will receive French textiles, chemicals and iron ore in return for ships constructed with French iron, machinery, agricultural produce and repair facilities, the last badly needed by France for reconstructing her ports. The agreement with Belgium, in addition to arranging for substantial Belgian "reconstruction" exports to Holland, and for the credits to pay for them, also provides that from November, 1946, the customs tariffs of both countries shall be the same, and that the customs frontier between Holland and Belgium shall cease to exist at the end of 1947.

If, to the trade of the three countries mentioned above, France,

Belgium and Holland, with that of their overseas territories, were to be added that of the other western European countries, Norway, Denmark and Great Britain, with their overseas territories, the result would be a group (or, as some would prefer to call it, "bloc") accounting for one-half of world trade and supporting, with their overseas empires, one-third of the world's population. The five Continental countries alone, with their overseas territories, accounted between them for just under one-fifth of world trade in 1938.

Denmark and Norway are both small countries whose foreign trade per head of population are among the highest in the world. Their principal exports are complementary to the imports of the other western European countries—bacon and butter in the case of Denmark, wood pulp and fish in the case of Norway.

The two countries between them accounted for about 6 per cent. of the exports and imports of continental Europe before the war. For both, Germany was the main supplier and Britain the principal market.

The Danish pig, dairy and poultry industries have been built up almost entirely on the strength of the British demand for their products, and over half of total Danish exports, which in 1938 amounted to some £72 million, normally came to Britain. Germany was Denmark's second biggest customer, taking about one-fifth of exports. Another fifth went to other Continental countries, and only 5 per cent. to countries outside Europe.

Germany supplied one-quarter of Danish imports in 1938, Britain one-third, and other Continental countries another quarter. Fuel, manufactured goods and animal feeding stuffs are the principal imports.

Owing to its value to them as a larder, Denmark and its agriculture were well treated by the Germans. Nevertheless, lack of fertilisers and shortage of fodder had produced, by 1945, a general decline in agricultural production of about one-third compared with 1935. The heaviest drop was in bacon production (53 per cent.), followed by eggs (36 per cent.) and butter (24 per cent.). Milk production was only 17 per cent. down.

The economy of Norway is mainly dependent on exports and shipping. Before the war exports consisted of 23 per cent. fish and fish products, 22 per cent. wood pulp and paper, 20 per cent. mineral and metal products, 20 per cent. miscellaneous industrial products, such as fertilisers and carbide of calcium, 7 per cent. minerals, and 6 per cent. agricultural produce.

In 1938 Britain took 28 per cent. of exports and supplied 23 per cent. of imports, Germany 15 per cent. of exports and 17 per cent. of imports, and the rest of Europe 39 per cent. of exports and imports.

The latter consist mainly of about 40 per cent. industrial raw materials and fuel, 15 per cent. food and drink, and 11 per cent. ships.

At the outbreak of war Norway was in a fair way to becoming the third largest shipping nation in the world. In pre-war years the gross earnings of her mercantile fleet represented more than 11 per cent. of the national income and equalled the value of exports. During the war a large part of the fleet remained under the control of the Norwegian Government in London, and 400 ships of this part, of 1.9 million gross tons, were lost; of the part remaining inside the blockade 136 ships, of 320,000 gross tons, were lost. The gross tonnage of Norwegian shipping in July, 1939, was 4.8 million tons, so that she has lost about half her total mercantile fleet.

Apart from this serious item, Norway came out of the war with the physical resources of her foreign trade comparatively unharmed. The war is calculated to have caused an overall decline of 18 per cent. in the national wealth of the country.

Eastern and South-Eastern Europe

The eight agricultural countries of Eastern and South-Eastern Europe—Poland, Hungary, Roumania, Yugoslavia, Bulgaria, Albania, Greece and Turkey—although they contain over one-quarter of Europe's population, only account for about 7 per cent. of its trade.

The characteristics of the foreign trade of these countries can be summarised as follows:

1. They all depend on the export of agricultural products and the import of raw materials and manufactured articles. In addition to agricultural products, coal, chrome ore and oil are important exports for Poland, Turkey and Roumania respectively.

2. An increasing proportion of their trade was directed to Germany in the decade before the war.

3. The economies of all the countries except Greece and Turkey are now being closely lined up with that of the Soviet Union—most of their trade movement since the war has been eastward. The trade of the former Axis satellites is at present governed largely by the factor of reparations deliveries.

4. The whole of foreign trade transactions in these countries is subject to official control, which usually takes the form of a quota system for both imports and exports, linked with bilateral payment and clearing agreements.

Populations in South-East Europe are increasing on the average about three times as fast as in the west and north, and the proportion dependent on agriculture has also been growing in recent years; yet agricultural output per cultivated acre is on the whole lower than in the industrialised countries of the west. Before the war it was estimated, moreover, that about one-fifth of the rural population of the Danubian countries was in excess of the requirements of the agricultural land under cultivation; and although about half their food production—chiefly cereals—was normally exported, the agricultural populations of these countries, comprising about three-quarters of the total populations, were habitually undernourished by western standards. It is the low standard of living in these countries which drags down the European average, to which, under the Allied Control Council's Plan, it is proposed that the future German economy shall be adjusted.

The trade of Czechoslovakia and Austria with South-Eastern Europe, and particularly with Hungary and Yugoslavia, declined steadily between the two wars, and was redirected mainly towards Germany. From 1928 to 1938, however, the importance of Germany, both as supplier and customer, for Czechoslovakia fell off very sharply in favour of countries outside Europe.

The Ex-Neutrals

There are reasons other than the mere fact of their neutrality during the war for considering the foreign trade of Sweden, Switzerland, Spain, Portugal and Turkey individually, for none of these countries, for one reason or another, fits into any particular group at all neatly. Turkey is included under this heading in spite of the fact that she declared war on Germany and Japan in late February, 1945.

Sweden

Sweden is the only one of the Scandinavian and Baltic countries which can be called highly industrialised, and she normally occupied about sixth place in Continental trade.

Suitably, in a country which is 56 per cent. forest, her largest industry, and the most important one in exports, is based on timber, providing mainly wood pulp, paper and sawn wood manufactures. Iron ore deposits are among the best in Europe, producing about 14 million tons a year, or roughly 5 per cent. of world output before the war. More than four-fifths of the ore is normally exported. There are a large textile industry and important ship-building, machinery and heavy and light engineering industries. A wide range of consumer goods is manufactured.

The following shows the main distribution of Swedish foreign trade before the war and in 1945:

	Imports		Exports	
	1938 %	1945 %	1938 %	1945 %
Britain ..	12	5	24	16
U.S.A. ..	16	16	9	13
Switzerland	2	11	1	3
Norway	3	5	7	19
Argentina	3	10	2	5
Germany	22	8	18	—

The war has left Sweden in a very strong position, with her industry fully modernised and up to date, largely owing to a benevolent industrial taxation law enabling firms to set aside part of their profits to write off the cost of plant and equipment and to build new works and purchase new machinery. Sweden's only major worry is the lack of coal, of which 7 to 8 million tons a year had to be imported before the war, over half coming from Britain. Sweden was Britain's third largest world market for coal in 1938, after France and Denmark. The other two main suppliers were Poland and Germany.

Switzerland

Like Sweden, Switzerland has come through the war with her industry in excellent condition and experiencing its biggest boom for twenty years. Whereas for many years, including the whole war period, Switzerland has had a large adverse visible balance, made good largely by receipts from her hotel industry, visible exports exceeded imports in 1945 by 249 million francs.

In normal times Switzerland took approximately seventh place in Continental trade. Manufactured goods, which were 87 per cent. of exports in 1938, accounted for 98 per cent. of the total in 1945, the highest proportion of manufactured goods to exports of any country in the world. Precision engineering, textiles and footwear, and chemicals account for the main items, but consumer goods of all kinds are included.

Three-quarters of Swiss foreign trade before the war was confined to Europe. Germany was the main supplier in 1938, with 23 per cent. of imports, followed by France with 14 per cent., Italy with 7 per cent. and Britain with 6 per cent. Germany was also best customer, taking 16 per cent. of exports, Britain second with 11 per cent. and France third with 9 per cent.; the U.S.A. and Italy each took 7 per cent.

As in the case of Sweden, the only problem confronting Swiss industry after six years of world war is how to get enough coal.

Spain

Spanish trade differs from that both of other Continental countries and the other ex-neutrals in two ways. The first is that her economy, although mainly dependent on agriculture, is not comparable with the other agricultural countries because of her position on the Atlantic and because she possesses overseas territories. The second difference arises from the changes brought about by the Civil War which began in July, 1936, and from Spain's increasingly close relationships with Germany and Italy from then until August, 1944, when communications were cut as a result of the Allied victories in Europe.

In 1935, the year before the Civil War, Spain accounted for about 3 per cent. of the imports and exports of continental Europe, thus taking something like tenth place as a trading nation. Britain was easily the biggest customer, taking one-quarter of exports, but only rating third as a supplier, with 10 per cent. of imports, after the U.S.A. (17 per cent.) and Germany (14 per cent.). The last two countries had been gaining ground steadily as suppliers at the expense of Britain. The Spanish overseas territories supplied 13 per cent. of imports, and altogether 45 per cent. of Spanish imports came from countries outside Europe.

Oranges were the largest single item in Spanish exports before the Civil War, accounting for one-fifth of the total in 1935. Food and drink as a whole accounted for 65 per cent. of exports, and minerals, or metals derived from them, for another 15 per cent. Cork, the only other important export, accounted for 5 per cent.

Imports consisted mainly of raw materials for industry (chiefly raw cotton), manufactured articles of all kinds, and coal, nine-tenths of which came from Britain.

The above is a bald outline of the traditional pattern of Spanish foreign trade, to which the country is now showing signs of returning after eight years of abnormal conditions. These eight years divide themselves into two equal periods.

The first of these, from the beginning of the Civil War until the fall of France, was characterised for Spain by steadily worsening poverty and shortages at home, and increasing indebtedness abroad, chiefly to Germany and Italy. Spanish agriculture, industry and transport were disrupted, exports dwindled, gold and foreign exchange reserves vanished. Starvation became widespread, and unemployment a serious problem, in spite of the substantial proportion of employable men interned for political reasons in prisons and concentration camps.

In the next four years, from 1940-44, changes in the war situation

lifted Spanish trade on to its feet again. First of all, full-scale trade with Germany and Italy was resumed with the fall of France. In return for, principally, Spanish minerals they supplied her with manufactured goods. Then, at the end of 1941, Spain agreed to allow the Allies, in return for the supply of certain raw materials, to buy all goods on equal terms with Germany, and the full-scale campaign of pre-emptive purchasing, regardless of price, that followed quickly provided her with plenty of dollars and sterling.

Today, then, although the Government's system of controlling agriculture and industry works badly, being unsuited to the Spanish temperament, Spain's foreign trade is once more established on a solid foundation. The increase during the war in the importance of mineral exports has disappeared, and fruit and other foodstuffs are resuming their traditional rôle as main exports. The two chief problems are inflation, reflected in a 400 per cent. increase in the currency circulation, and the cumulative effects on agricultural production of many years' shortage of fertilisers.

Portugal

The trade of Portugal, like that of Spain, is also affected by her position on the Atlantic seaboard and by her possession of overseas territories. The latter normally supply raw materials such as cotton, oilseeds and hides, to the extent of nearly one-third of total imports, and they receive about 12 per cent. of Portuguese exports.

Port wine was Portugal's main pre-war export; more than half of it went to Britain and her colonies. Other important commodities exported are sardines, cork, and timber products. About half of imports are manufactured articles; the other half consists mainly of fuel, food and drink, and raw materials, in roughly equal proportions.

Britain was the main supplier in 1938, followed closely by Germany, with the U.S.A. third. Britain was easily the best customer, taking about one-fifth of exports, followed by Germany, the Portuguese colonies and France.

Like the other ex-neutrals, Portugal has benefited from the economic warfare of the belligerents, and now has ample supplies of dollars and sterling. The purchasing power of the bulk of her population is, however, extremely low. The Government is known to have extensive plans for the industrialisation and electrification of the country which, if they are ever carried out, will no doubt raise the general standard of living.

Turkey

Turkish trade is interesting, if only for the reason that she has, since October, 1923, been engaged in completely remodelling the structure

of her State, economically as well as politically, without any reference to the past.

Foreign trade has, however, up to now been relatively unimportant in Turkish economy, since 80 per cent. of the population are self-supporting peasants. But the industrial development of the Republic has made steady progress, particularly since 1933, when the Government's "Industrial Five Year Plan" was announced, to which was added in 1937 the "Three Years Mineral Development Plan", and which was succeeded in 1938 by a "Four Years' Plan". Production of textiles, coal, chrome ore (of which Turkey produced about one-quarter of world output in 1938) and of a wide variety of factory products such as paper, sugar, glass, ceramics and chemicals has been greatly stimulated.

Turkish exports, which averaged £19.5 million a year from 1934-43, consist mainly of tobacco (slightly under one-third of the total), dried fruits, chrome ore, wool, skins and cotton. Imports, which averaged £16 million a year over the same period, were mainly machinery, iron and steel manufactures, textiles, vehicles and chemicals.

At the outbreak of war Germany had achieved a dominating position in Turkish trade, accounting for more than half of imports and 37 per cent. of exports in 1939.

Throughout the war the Government's plans for industrialisation have made steady progress; inflation has been grappled with and largely checked; Turkey can face the immediate future with reasonable confidence. Developments in her foreign trade during the next ten years should prove worth watching.

Introduction to

"THE U.S.S.R. AND WORLD TRADE"

IN international trade, as in most things, Russia remains, at least for the time being, the major unknown. Will she return to her pre-war policy in international trade?

In 1938 Soviet foreign trade amounted to only 1 per cent. of the world's total, that is, it was less than the trade of Denmark or Sweden. Her foreign trade was always an integral part of Soviet overall planning, and one of the main purposes of that planning was the pursuit of self-sufficiency so as to be able to withstand, if necessary alone, a major assault from the capitalist world.

The war has meant great losses of industrial capacity for the Soviet in the West, but to some extent this has been made good by the great strides made in the industries of the Urals, Siberia and the Far East. The Soviet leaders have set out by now all the main details of their first post-war Five Year Plan—the first of three which between them aim to raise Soviet industrial production by 1960 to three times its 1940 level. For the time being the principal emphasis is on an expansion of the supply of capital goods and an even more rapid industrialisation in the East. In the short run this policy may necessitate the importation of foodstuffs and of manufactured consumer goods. Such a narrow margin has been allowed for all except the capital goods industries that any setback in agriculture or the light industries would affect the general standard of living almost immediately.

From the details of the plan already announced it is highly probable that the Soviet Union is once more determined on self-sufficiency; this time aided by reparations deliveries from German Europe and Japanese Asia, and by linking the economies of Eastern and Central Europe with that of Russia itself.

In short, Russia is unlikely to contribute much to that restoration of world trade so urgently needed and sought by Britain.

Section 4

THE U.S.S.R. AND WORLD TRADE

By Oleg Hoeffding

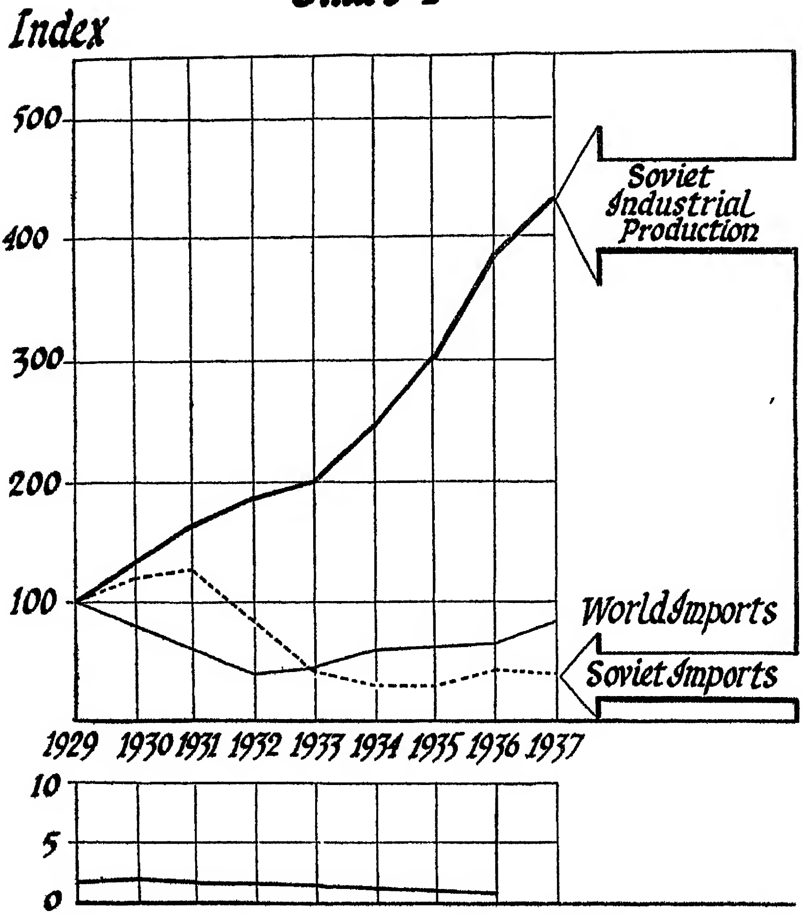
Soviet Pre-War Trade

THE expansion of the domestic economy accomplished by the Soviet régime has not been matched by that growth and intensification of trade relations with the outside world which had accompanied the industrialisation of the West. On the contrary, the progress of Soviet industrial development in the 'thirties was paralleled by a steady withdrawal from world trade. Even in 1930-31, when Soviet foreign trade reached its peak, it accounted for only 2.5 per cent. of a world trade volume sharply reduced by the Great Depression. Soviet trade did not follow the general upward trend in the later 'thirties, and had declined to 1 per cent. of the world total by 1938. At this time the volume of Soviet industrial production was approaching Germany's (which then accounted for 9 per cent. of world trade); while Soviet population was nearly four times that of Great Britain, whose share was 14 per cent. Tsarist Russia, before the first World War, had contributed 4 per cent. of world trade.

Small countries like Denmark, Switzerland and Czechoslovakia exceeded the volume of Soviet foreign trade in 1938. Imports and exports per head of the Soviet population, less than 10s. in 1938, were smaller than those of any other European country, Albania not excluded. Expressed as a share of gross national production, Soviet exports declined from the low figure of 3.5 per cent. in 1930 to a mere 0.8 per cent. in 1938.

It would be premature to conclude that foreign trade was of no importance to the U S S.R. before the war. In reading the figures, the peculiarities of the Soviet economic system (a fully-socialised planned economy) and of its system of foreign trade (a state monopoly of all foreign transactions) must be borne in mind. Chronologically, the foreign trade monopoly preceded comprehensive economic planning in the U.S.S.R. Created soon after the October Revolution it was never relaxed during the 'twenties, when a "private sector" was still allowed to co-exist with state and collective enterprise in domestic industry, commerce and agriculture. Always an essential political concept of the Soviet doctrine of state, the foreign trade monopoly

Chart I



Soviet Exports as % of National Production

became also an integral component of its economic system once the U.S.S.R., with the Five-Year Plans, had embarked on full-scale socialisation and long-term planning of its economy. Soviet foreign trade has since been a carefully-fitted element in national planning, designed to obtain the maximum advantage to the economy as a whole from its connections with the outside world. This in itself did not predetermine the volume of Soviet trade. If all other factors had been left out of account, the economic objectives of the Soviet Union might

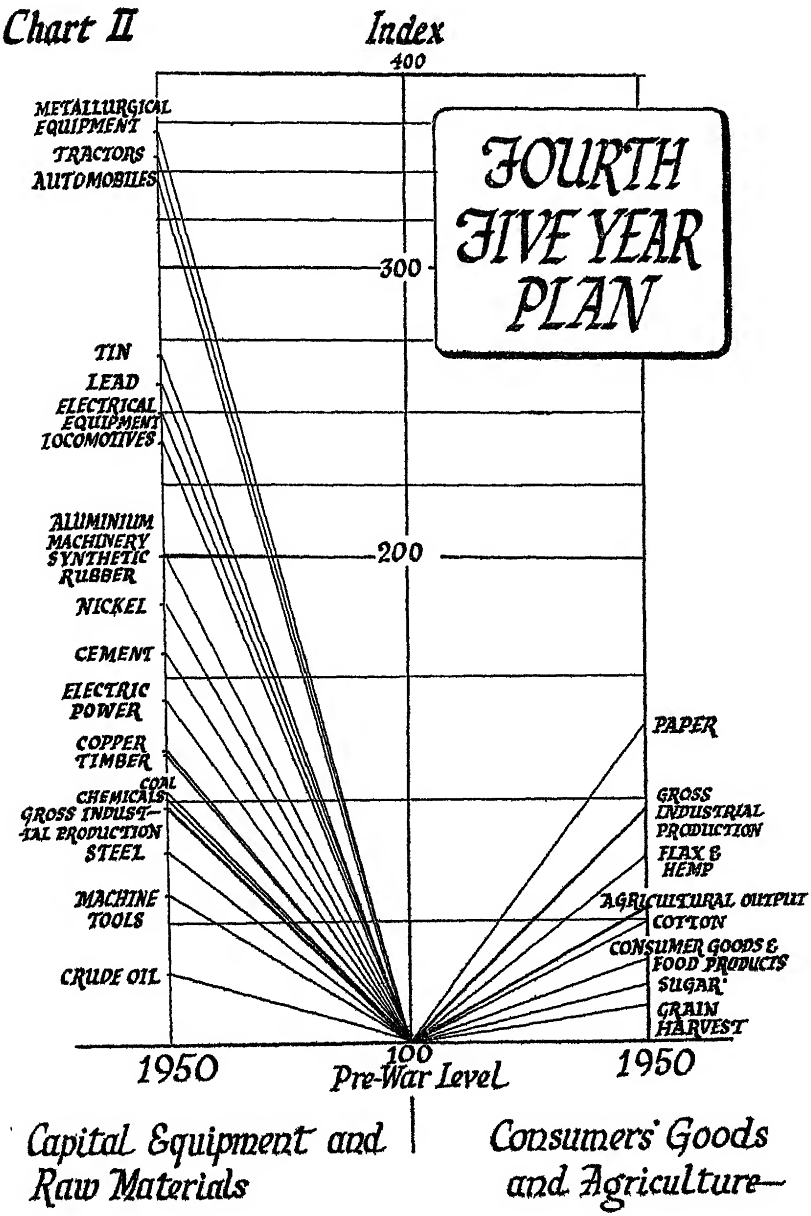


Chart II
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400
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Pre-War Level
FOURTH FIVE YEAR PLAN
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ELECTRICAL EQUIPMENT
LOCOMOTIVES
ALUMINIUM
MACHINERY
SYNTHETIC RUBBER
NICKEL
CEMENT
ELECTRIC POWER
COPPER
TIMBER
COAL
CHEMICALS
GROSS INDUSTRIAL PRODUCTION
STEEL
MACHINE TOOLS
CRUDE OIL
PAPER
GROSS INDUSTRIAL PRODUCTION
FLAX & HEMP
AGRICULTURAL OUTPUT
COTTON
CONSUMER GOODS & FOOD PRODUCTS
SUGAR
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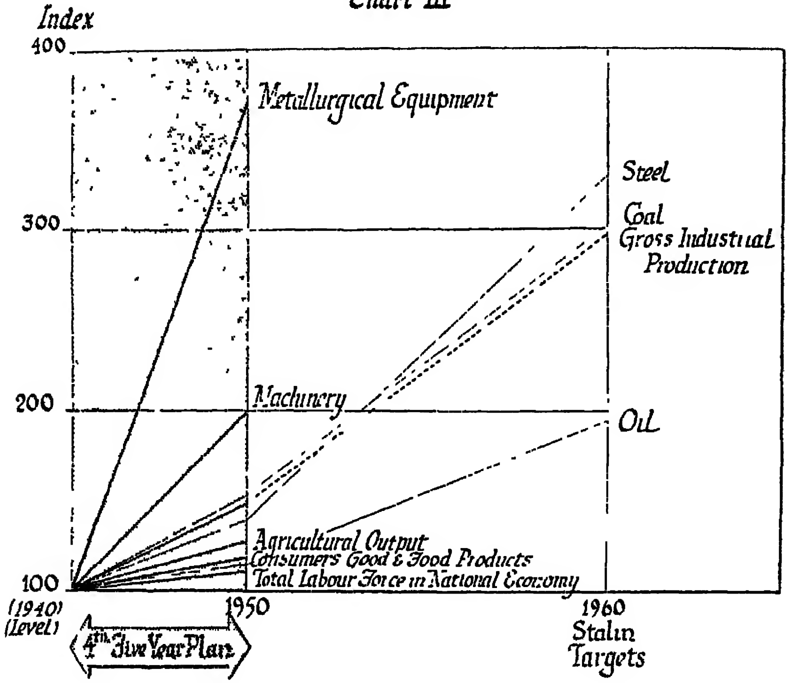
1950
1950
Capital Equipment and Raw Materials
Consumers' Goods and Agriculture—

Chart III



have been served equally well or better by an expansion of foreign trade than by the contraction which actually took place. However, Marxist doctrine does not dissociate economic from political factors, and it was largely on the basis of weighing economic benefits against political dangers that the Soviet planners decided against linking the fortunes of their domestic economy with those of the capitalist world. The decision to purchase from abroad merely that margin of economic resources which would promote most effectively, at any given stage, the development of the domestic economy towards full self-sufficiency could only result in a steadily diminishing volume of foreign trade transactions. However, insofar as they represent a margin considered indispensable for the attainment of the objectives of Soviet economic policy, their volume is less significant than their qualitative contribution to this end, and Soviet trade, small as it was, continued to reflect a genuine dependence on world trade right up to the outbreak of war.

The political developments which led to the Soviet decision in favour of self-sufficiency occurred shortly after the U.S.S.R. had learnt an expensive object lesson of the economic risks of trading

with a capitalist world afflicted by trade cycles. The launching of the First Five Year Plan in 1929 created a sudden need on a massive scale for foreign industrial equipment, and coincided with the start of the world depression. The Soviet import programme had to be carried out in the most unprofitable situation imaginable. All the U.S.S.R. had to sell were primary products like grain, timber and oil. Prices of primary products fell much more heavily in the depression than those of the industrial goods needed by the U.S.S.R. In 1930-31 the Soviet Union had to increase the tonnage of its exports $2\frac{1}{2}$ times above the 1927-28 level in order to obtain approximately the same monetary return, and a volume of imports only 75 per cent. greater than in 1927-28. In order to keep to the capital investment schedules of its Plan, the U.S.S.R. had to force grain exports to 5,000,000 tons in 1931, the highest level since the Revolution, cutting domestic consumption heavily in order to do so, since collective agriculture was then going through its birthpangs and had no surpluses to spare. The Marxian thesis that trade between industrialised and primary producer nations is conducted on a basis of "colonial exploitation" must have received new and concrete meaning for the Soviet planners in this period.

The Second Five Year Plan (1933-37) saw a strict co-ordination of foreign trade with the needs of expanding Soviet industry. The import programme was determined by the quantities of machinery and raw materials which the Soviet Union did not as yet produce in adequate volume or quality, and the import programme, in turn, largely determined the volume of Soviet exports in the absence of foreign long-term credits and Soviet financial liabilities. In any event, the domestic economic trend strictly limited the availability of goods for export. Food production was being increasingly absorbed by the growing urban population, and grain exports fluctuated, according to harvests, between 0.5 and 2 million tons. The expansion of Soviet industry soon caught up with output of most of the raw materials which had constituted Russia's traditional staple exports. Between 1929 and 1936 timber exports dropped from 23.1 per cent. of Soviet production to 14.2 per cent., those of petrol from 91.5 per cent. to 18 per cent., and iron ore from 5.1 to 0.01 per cent. The contraction of raw materials exports much more than outweighed the much-publicised but quantitatively insignificant exports of tractors, textile machinery and other industrial products which started in the middle 'thirties. Pre-war Soviet export trade remained heavily dependent on the same primary products which were claimed in ever greater quantities by domestic industry. Soviet planning could have reversed this trend by investing a greater share of the national effort in primary production at the expense of manufacturing industry,

which would have meant a greater and continued dependence on imported industrial equipment.

The international situation, however, clearly militated against such a policy. The "capitalist environment", always suspiciously watched as potentially hostile, began to breed actively aggressive and anti-Soviet régimes in Germany, Italy and Japan. Without publicising the objective of strategic self-sufficiency, the U.S.S.R. adopted it and pursued it with no less determination than Nazi Germany, and with much better prerequisites of success in the much more extensive and varied Soviet natural resources. From 1935 onwards, the U.S.S.R. was vigorously building up an economic war potential capable of standing the shock and strain of a major conflict without outside aid, and the import programme was closely tied to this objective. Nearly 90 per cent. of Soviet imports in 1935-38 were capital equipment, raw materials and semi-manufactures. The great progress made in equipping Soviet industry and lessening its dependence on foreign equipment was reflected in the decline of the share of machinery imports, from 55 per cent. of the total in 1930-33 to 33 per cent. in 1934-37.

The radical re-orientation which took place during the same period in the geographical distribution of Soviet trade was caused by the political trend as well as by the shift of Soviet import needs from machinery and equipment to non-ferrous metals, rubber and other raw materials. Trade with Germany and Italy declined not only because of political antagonism, but also because they were unable to meet the modified Soviet needs, and the U.S.S.R. had to turn to other sources of supply. In the case of Japan, the regional needs of the rapidly developing industries of the Soviet Far East outweighed the deterioration of political relations. The extent of the changes is shown in the table below.

	Percentage of Soviet Exports		Percentage of Soviet Imports	
	1929-32	1937	1929-32	1937
Great Britain	26·5	32·7	8·0	14·3
Germany	19·4	6·2	31·6	15·0
U.S.A.	3·7	16·4	18·8	18·2
Italy	4·6	·9	2·0	·3
Japan	1·9	·6	1·1	4·0
Belgium	2·5	7·5	·4	5·0
Netherlands	3·5	6·4	·3	8·0
France	4·3	5·1	2·1	2·1

At the outbreak of the European war the U.S.S.R. had not yet achieved the degree of self-sufficiency which had been its aim. Its

import needs, though small in volume, indicated vulnerable gaps in its industrial armour. A last-minute attempt to fill these gaps, carried out with the supreme tactical versatility which is typical of Soviet policy, was made in the German-Soviet trade agreement of August, 1939. The short-lived revival of German-Soviet trade which followed revealed the urgent need of the U.S.S.R. for military supplies and industrial equipment on the eve of war, and it was a fitting feature of this strange interlude in the world conflict that the Nazis found it more advantageous to themselves to supply armaments rather than the machine tools which the Soviets had pressed for most.

Soviet Economy at War

During the war the U.S.S.R. collected the dividend on its far-seeing planning for strategic self-sufficiency. Geographically it found itself in a position similar to that of Russia in 1914-17. Except for the precarious supply routes through Murmansk, Persia and Vladivostok it was cut off from its Allies. Such isolation had proved fatal to old Russia, but the U.S.S.R. weathered the storm even though the first German onslaught deprived it of its most important concentration of industry in the Ukraine. Big strides had been made before the war in dispersing Soviet heavy industry and developing new industrial centres in the Urals and Siberia. Nevertheless, the Ukrainian industries based on Donets coal and iron ore from Krivoi Rog had remained the heart of the Soviet industrial potential. Their loss eliminated 60 per cent. of Soviet coal output and 70 per cent. of pig iron, steel and rolling mill capacity. The feat of industrial evacuation and expansion in the East with which the U.S.S.R. parried this blow will remain one of the outstanding episodes in the history of World War II. Iron and steel production in the non-invaded territories was increased by 50 per cent., or by 3-4 million tons, during the war. In the Urals, coal and pig iron output increased by 100 per cent. from 1940 to 1945, and the volume of industrial production was trebled. However, this expansion could make up for only a portion of the loss: ten blast furnaces and 23 open-hearth furnaces were commissioned during the war in the Urals and Siberia, but 62 and 213, respectively, had been lost in occupied territory. The U.S.S.R. had to fight the war with a steel production far below the 18.3 million tons which it produced in 1940, and in the later phases of the war it was close to the British level of 12-13 million tons. This fact makes the achievement of Soviet war production even more remarkable, even if the important aid given by British and American supplies is taken into account.

Gross production in Soviet large-scale industry is claimed to have totalled 361 milliard roubles in 1942-44, or a yearly average of 120

milliards as compared with 78 milliards in 1935-37. Civilian consumption was curtailed to extremely low levels; this enabled the U.S.S.R. to put every effort into munitions production and the expansion of industry in the East. The impressive progress made after V-day in the reconstruction of the territories devastated by German occupation and successive waves of scorched earth was based on the industrial

SOVIET AND BRITISH WAR PRODUCTION
(Monthly Averages)*

	U.S.S.R. (June, 1942—May, 1945)	U.K. (Jan., 1942—June, 1944)
Aircraft	3,330	2,150
Guns of all calibres	10,000	1,613
Tanks and armoured vehicles	2,500	2,540
Machine guns	37,500	7,660
Rifles	250,000	60,800
Sub-machine guns	166,700	113,500
Mortars	8,330†	1,070
Small arms ammunition (mill. rounds).	617‡	217

* Soviet production has been calculated from the figures given by Stalin on February 9, 1946; British figures from "Statistics Relating to the War Effort of the United Kingdom", Cmd. 6564.

† 1942-1944.

‡ 1944.

development which took place during the war in the non-invaded regions. The index of capital investment in the heavy engineering industries illustrates this important trend. Taking 1940 at 100, then, probably after an undisclosed drop in 1941, it rose to 113 in 1942, 150 in 1943, and 335 in 1944. Industrial reconversion to serve the needs of post-war reconstruction began in 1944 and was greatly accelerated immediately after the German surrender. Production of industrial equipment in the second half of 1945 exceeded that of the first half by one-third. By early 1946 the output of metallurgical equipment had fully, and that of power station machinery nearly, caught up with the 1940 production rate.

The rehabilitation of industry and agriculture in the liberated areas was tackled vigorously, but it was not allowed to interfere with the continued expansion of Eastern industries. There has been practically no repatriation of evacuated machinery. In the Ukraine, 22 of the 62 blast furnaces and 59 of the 213 open-hearth furnaces wholly or partly destroyed during the occupation had been re-started by February, 1946. Although there is still a long way to go in the rehabilitation of the Donbass industries, the growth of heavy industry in the East continues unabated. Steel production in the Ukraine in January, 1946,

was only 14.5 per cent. above the probably very low level of January, 1945, while in the Eastern regions pig iron output increased by 21 per cent. in 1945, and steel production by 15.3 per cent. Three new blast furnaces will come into production this year at the giant Magnitogorsk plant in the Urals, and several more in other Eastern plants.

If the emphasis on further expansion of the Eastern industries has been one major feature of Soviet immediate post-war reconstruction policy, its other characteristic is the priority accorded to the development of heavy industry at the expense of consumers' goods manufacture. Just as the British public is being urged to put up with more austerity in order to promote the export drive, Soviet consumers—whose war-time standards were far more austere—are being warned that higher living standards will only be possible if for the time being every effort is put into expanding heavy industry.

Planning for 1950 *and* 1960

While reconversion and post-war reconstruction in the liberated areas are still in full swing, the sights have been set for the future economic development of the U.S.S.R. In February, 1946, Stalin proclaimed an ambitious fifteen-year programme evidently designed to realise the old aim of Soviet industrialisation—"to catch up with and overtake America". By 1960 the overall volume of industrial production is to be increased threefold in comparison with the 1940 level. Coal production is to reach 500 million tons, steel 60 million tons, and oil 60 million tons.

The first step towards Stalin's targets is to be made in 1946-50 under the Fourth Five-Year Plan, presented to the Supreme Soviet on March 15 by M. A. Voznesensky, Chairman of the State Planning Commission. The Plan incorporates and develops the two basic features which had become apparent in the initial reconstruction measures. While acknowledging the need for speedy rehabilitation of the territories liberated from German occupation and newly acquired in the West, it does not allow their needs to impede the progress of industrial expansion in the East. Out of the 250 milliard roubles budgeted for capital investment under the Plan, only 115 milliards have been allocated to the liberated areas. Pig iron production in the U.S.S.R. as a whole is to be increased by 1950 to 130 per cent. of the 1940 level, and coal production to 151 per cent., but in the Urals the respective increases will be 250 and 270 per cent. The share of the Eastern areas in total Soviet crude oil production is to be raised from 12 per cent. in 1940 to 36 per cent. in 1950 Out of a total of 5,900 major state enterprises due to come into operation during the Plan period, only 3,200 or 54 per cent. will be located in the liberated areas, where thousands of plants were destroyed or evacuated during the war.

The emphasis on heavy industry and manufacture of means of production—"Sector A" in the language of Soviet planning—is the other fundamental aspect of the Fourth Plan. The most spectacular production increases are planned for machinery, transport equipment, metals and chemicals. "Sector B"—consumers' goods manufacture and food processing—has fared much worse, and Soviet consumers will have to face another period of extreme austerity and promises of a "happier and wealthier life" some time in the future, as they did in the 'thirties.

Analysis of the Fourth Five-Year Plan is not made easier by the continued Soviet insistence on secrecy of most economic statistics. Most of the plan targets for 1950 have been published only as percentages of 1940 output, which in many cases has not been disclosed in absolute terms. Next to nothing has been made known of current production levels, beyond general admissions that by and large they are below the pre-war rate. The more significant published data are illustrated in Chart II, which sets the 1950 targets in "Sector A" industries on one hand against those in "Sector B" industries and agriculture on the other. In "Sector A" the targets for most products have been fixed well above the overall increase of industrial output to 148 per cent. of pre-war. Significantly, metallurgical equipment stands highest on the ladder, evidencing the determination of the Soviet planners to build in the coming five years the solid foundations for the achievement of Stalin's targets in the following decade. Machinery output as a whole is due to be doubled, with faster expansion rates provided for road and rail vehicles, tractors and electrical equipment. The moderate increase scheduled for machine tools is partly explained by Voznesensky's disclosure that Soviet production in 1940 had been at the formidable rate of 1,000,000 units, and also by the fact that machine tools will be prominent among reparations deliveries from Germany. Non-ferrous metals stand high on the scale, against a much more modest increase in steel production. Chemical production is to be doubled against the pre-war level. A surprisingly slow advance is scheduled for oil production, which may reflect a substantial decline in Baku output during the war, since considerable expansion is claimed to have taken place in the Eastern oilfields. The Soviet decision to expand synthetic oil production to 900,000 tons in 1950, however, does not reflect any inadequacy of natural oil resources, but is designed to increase local oil supplies in the Far East, by hydrogenation of coal produced in Eastern Siberia.

The right-hand side of the chart shows the reverse of the medal. "Sector B" industries are to increase their gross production value by 1950 to only 117 per cent. of the 1940 level. Agricultural output is to increase to 127 per cent. in money value, but the total grain harvest

in 1950, a good physical measure of overall food supplies, is not to exceed 107 per cent. and sugar production 112 per cent. of the last pre-war year. Soviet agriculture has suffered heavily in the war, and its recovery is bound to be slow, although the Plan devotes substantial resources to its rehabilitation: Fertiliser deliveries will average 3.4 million tons a year, as against 1.7 in 1933-37, the annual output of new tractors 144,000 against 96,000, and the total value of farm implement deliveries will be nearly three times that of 1933-37. For livestock the Plan provides for an increase "above the pre-war level", but the failure to publish specific figures probably indicates that this increase will be slight.

Publication even of these incomplete data reveals enough of the post-war Soviet food situation to show that for the next five years at least domestic demand will easily absorb the entire output of foodstuffs. Any major food exports would be strictly at the expense of domestic consumption. The Soviet Government's public commitment to abolish rationing of cereal foodstuffs after the 1946 harvest, and all other food rationing in 1947, reflects considerable confidence in other forms of controlled distribution. By 1950, Soviet population will probably have recovered its 1940 level, and will be well above it if the newly incorporated territories are taken into account. The moderate rate of expansion in Soviet agricultural output foreshadows nutrition standards almost certainly below those of the late 'thirties.

The same goes for industrial consumers' goods, and some indication of the extent to which the needs of Soviet consumers will be subordinated to those of heavy industry is provided by the 1950 production targets for textiles and footwear. Cotton textiles output is scheduled to reach 4.69 milliard metres, which is 34 per cent. above 1937 production, but still 8 per cent. below the target set originally for 1937 by the Second Five Year Plan. Manufacture of woollen cloth will total 159 million metres in 1950, less than one yard per head of the population, and leather footwear production, at 240 million pairs in 1950, will be only 10 per cent. above its 1937 level.

The manpower problem which confronts Russia after the war largely accounts for the necessity to defer an improvement in living standards until after the means of production have been rehabilitated and expanded. Voznesensky announced that the total labour force in the national economy will be raised to 33.5 million in 1950, with an average annual increase of 1.25 million. This means that the present labour force (presumably including the newly acquired territories) is around 27.25 million, or little more than the number employed in the Soviet national economy in 1937, and 3.15 million less than in 1940, and that the 48 per cent. increase in industrial production over the 1940 level by 1950 called for by the Plan will

have to be achieved by a labour force only 10 per cent. larger than in 1940. The Plan therefore demands in effect a very considerable increase in labour productivity, and the P.M.H. problem will be as crucial for the Soviet post-war economy as it is for Britain. The U.S.S.R. is tackling the problem by extending and improving the mechanisation of production processes, which presupposes the formidable increase in machinery and equipment production scheduled by the Plan.

Chart III sets the short-term targets of the Soviet economy against Stalin's fifteen-year programme. It shows some of the problems of the long-term plan: the discrepancy between the rapid rate of growth programmed for heavy industry in 1946-50 and the much slower development of agriculture and the consumers' goods industries, which will have to be rectified in the 1950-60 decade, when the trend of Soviet population will have resumed its rapid upward movement.

The U.S.S.R. in Post-War World Trade

Will the period of domestic economic expansion on which the Soviet Union has embarked see a development of closer economic relations with the outside world, or will the U.S.S.R. resume its pre-war road to self-sufficiency and finally retire into an autarchic shell? Voznesensky, in presenting the new Plan, announced that

> "the U.S.S.R. will continue to develop economic ties with foreign countries, while maintaining the well-tried policy laid down by the Soviet Government, which aims at ensuring the technical and economic independence of the Union".

Study of the plan itself shows clearly that the aim of "independence" has precedence over intensified trade relations, and only wishful thinking could describe the plan as anything but autarchic. Among the industries scheduled for the most spectacular expansion above the pre-war level are those whose products figured prominently in Soviet pre-war imports:

	Percentage of Soviet 1938 Imports	Production increase by 1950 over 1940
Machinery, equipment and instruments	28·1%	100%
Electrical equipment	4·2%	150%
Non-ferrous metals	19·1%	Tin 170% Nickel 90% Copper 60%
Rubber	3·5%	100%

The autarchic aspirations of the Plan augur ill for British and Empire exports to the U.S.S.R. The items tabulated above accounted for 83 per cent. of British exports and re-exports to the U.S.S.R. in 1936, and metals and rubber alone for 77 per cent. Soviet economic policy in the past, and current "austerity" propaganda, give little hope that the U.S.S.R. intends to supplement by imports the inadequate domestic production of consumers' goods. There is no better reason to expect that the reconstruction and development needs of the Soviet economy will result in an expansion of purchases from abroad of machinery and equipment on a scale comparable to those in the early 'thirties. Even in the current phase of post-war reconstruction the U.S.S.R. shows no pressing desire for such imports except on its own terms, and this despite the fact that it is less hampered by foreign exchange problems than the Western European countries. Moreover, the need for normal imports of industrial equipment will be greatly reduced by the formidable windfall of reparations deliveries from Germany, and later probably Japan.

The political tension which has developed between the U.S.S.R. and the Western Powers since the end of the war will obviously not contribute to an improvement of trade relations. As long as it persists it will confirm the Soviet leadership in its suspicious attitude towards economic entanglement with the capitalist world, and promote autarchic tendencies in Soviet economic planning. It is significant that the U.S.S.R., after having committed itself to a contribution to the Bretton Woods Monetary Fund far in excess of its relative stake in pre-war world trade, has failed to date to ratify the Bretton Woods agreement, and Soviet sources have lapsed into complete silence on any participation in any international economic schemes.

All indications are that the "development of economic ties with foreign countries" of which Voznesensky spoke, will be confined to the region which the war has brought into the Soviet political sphere of influence, and which before the war had little economic contact with the U.S.S.R. The Soviet frontiers in Europe have been re-drawn by the incorporation of the Baltic States and portions of pre-war Poland, Finland, Germany, Czechoslovakia and Rumania. Eleven European States, whose aggregate pre-war foreign trade turnover was five times that of the U.S.S.R., have been absorbed or supplied with "good-neighbourly" governments more or less closely controlled from Moscow. The Soviet voice has been prominently heard in the decisions on Germany's economic future. Its insistence on a radical breaking-up of German industrial power, while primarily motivated by political and strategic considerations, is also closely connected with Stalin's fifteen-year plan and the commercial policy pursued

by the U.S.S.R. in its new-won sphere of influence. The U.S.S.R. is clearly determined to step into Germany's industrial inheritance and to fill the vacuum which has been created in Eastern and Central Europe by the elimination of Germany as Europe's industrial heart.

Trade has followed the flag in the westward expansion of Soviet power. It is a brand of trade basically different from the conventional pattern of international exchanges known to the Western World and propagated in its proposals for the future of world trade. The post-war trade policy of the U.S.S.R. in Eastern Europe is closely akin to that pursued by Drs. Schacht and Funk in their pre-war efforts to tie the Danubian area to the German living space. The Germans tried to take advantage of the fact that the Danubian economy was complementary to their own, and could provide food and raw materials in exchange for the products of German industry. The U.S.S.R., as yet, has no similar advantage, and has taken on a substantial commitment for the future by staking out its claim on Eastern Europe as its economic as well as political appendage. It has anticipated by some considerable period its ability to take Germany's place as the major source of industrial supplies for the rural regions of Europe. German 1937 exports to the new Soviet satellites*, and the Baltic states, totalled roughly £56,000,000. This was no more than 14 per cent. of total German exports, but nearly twice the total of Soviet exports to all countries in the same year. Soviet exports to the same area, on the other hand, barely amounted to £3,000,000.

The technique of Soviet trade policy has varied from country to country in its new sphere of influence, but its common objective has been to link its partners' economies closely to its own. The armistice agreements with Germany's ex-satellites were devised so as to assist in this aim. Under the headings of reparations and restitution deliveries they pre-empt in Russia's favour substantial portions of her partners' capital equipment resources, and of their industrial production for several years ahead.

The Soviet-Rumanian trade treaty signed shortly after the armistice provides for "participation of Russian capital and technical assistance in the intensification of Rumanian economic activity". This clause is being implemented by the formation of mixed Russo-Rumanian corporations, with virtual monopoly status, for all Rumanian key industries, river and maritime transport and civil aviation. Equipment for the re-building and development of these industries will be provided directly by Russia, or else the U.S.S.R. will "make available the means of payment for purchases elsewhere", which in effect means the channelling of Rumanian purchases through the Soviet foreign trade

*Poland, Hungary, Rumania, Yugoslavia, Bulgaria, Albania, Czechoslovakia, Finland.

monopoly. The agreement also provides for raw material imports from the U.S.S.R., for processing in Rumania against re-export to Russia of a portion of the manufactured goods. The same device has been adopted with Hungary, Poland, Finland and lately also the Soviet occupation zone of Germany. The Soviet agreement with Hungary concedes to Russia the right of acquiring interests up to 50 per cent. in all important Hungarian industries, and also channels a large proportion of Hungarian trade towards the U.S.S.R. A face-saving clause inserted after Anglo-American protests which leaves Hungary free to conclude similar agreements with other countries detracts little from the exclusive nature of the Soviet arrangements. An agreement with Poland, an allied country, gives the U.S.S.R. a substantial share in Polish coal and metallurgical exports, in return for Soviet supplies of raw materials and industrial goods. Finland's exports to the U.S.S.R. between the armistice and the end of 1945 were 62 per cent. of her total exports, and reparations deliveries accounted for 54 per cent. of the total.

The domestic economic policies adopted by the new Governments in Eastern Europe will help to consolidate their economic alliances with the U.S.S.R. Nationalisation of industries usually means nationalised foreign trade in their products and raw materials, and agrarian reform measures can be followed up with co-operative or collective mechanisation on the Soviet pattern. Assisted by its political ascendancy, the U S.S.R. will undoubtedly exercise a decisive influence upon the economic future of the Eastern half of Europe. There is food for thought for Western statesmen (and exporters) in a statement made by the Czechoslovak premier in February, 1946, which is all the more significant since his country has also proclaimed itself anxious to trade with the West:

> "We do not want trade relations with our great Eastern neighbour to develop haphazardly. The Soviet Union can tell us what it requires within the framework of its Five-Year Plan. From our adherence to the Soviet Five-Year Plan we may expect orders from the U.S.S.R. for five years. This is of great importance to our economy, and we hope we shall conclude a comprehensive treaty with the U.S.S.R."

Czechoslovakia, and other countries with well-developed industries like Hungary and Finland, can derive economic advantages from a close and permanent association with the U.S.S.R. to which the West will find it difficult to provide counter-attractions. For the predominantly agricultural countries the economic foundations of such association are somewhat problematic, but the profound upheaval of

their economic life by the war, and the absence of nostalgic memories of high living standards, will facilitate re-orientation in new directions, and the orientating force will logically be provided by the same power which furnishes political leadership. The sights of Soviet economic expansion have been set high in relation to its man-power resources, and the Five-Year Plan can easily provide full employment for the labour force of the Soviet fringe in Europe. The absorption of this area in the Soviet economic orbit will nominally expand and intensify Soviet foreign trade relations, but in effect it will create a new category of inter-regional trade. Whether or not it will deserve the international label will largely depend on how close the ultimate political affiliation will be between these countries and the U.S.S.R. The limits of the Soviet peripheral "economic space" are as yet fluid, in Europe as well as in the Middle and Far East.

In the West they may advance from the Elbe to the Rhine if Germany passes under central administration by a communist-dominated unified "workers' party". The Soviet offer of wheat to France, transmitted significantly through Maurice Thorez, is as interesting in its political implications as it is helpful in relieving the strain on the Western food supply pool. Made at a time when food rationing in the U.S.S.R. had not yet been abolished and the Ukrainian and Byelorussian Soviet Republics were receiving U.N.R.R.A. aid, it demonstrates the close co-ordination between Soviet political strategy and foreign trade policy, as well as the difficulty of fitting the Soviet way of trade into any scheme which, in the words of the proposals for the international trade conference, envisages that "state trading enterprises shall be influenced solely by commercial considerations".

APPENDIX

Figures in brackets are index numbers with 1940 representing 100.

A.—Industry

	1932	1937	1938	1940	1950 Target
Gross Industrial Output (Milliard roubles, 1926/27 prices)... ..	39 (28)	96 (70)	107 (78)	138 (100)	205 (148)
Number of workers and employees in national economy ('000,000)	22 9 (68)	27 0 (89)	27 8 (81)	30 4 (100)	33 5 (110)
Electric power output ('000,000,000 kwh)	13·5 (28)	36·4 (76)	39·6 (83)	48 0 (100)	82 (170)
Coal ('000,000 metric tons) .	65 (39)	128 (77)	133 (80)	166 (100)	250 (151)
Pig iron ('000,000 metric tons) .	6·2 (41)	14·5 (97)	14 6 (97)	15 0 (100)	19 5 (130)
Steel ('000,000 metric tons) ..	5·9 (32)	17·7 (97)	18·0 (98)	18·3 (100)	25·4 (139)
Crude oil ('000,000 metric tons). .	22 3 (72)	30 5 (98)	32 2 (104)	31·0 (100)	35 4 (114)
Synthetic oil ('000,000 metric tons)	—	—	—	—	·9
Copper ('000 metric tons) ..	45 0 —	99·8 —	103·2 —	— (100)	— (160)
Aluminium ('000 metric tons)	·4 —	37·7 —	56 8 —	— (100)	— (200)
Lead ('000 metric tons)	18·8 —	50·0 —	— —	— (100)	— (260)
Cement ('000,000 tons) .. .	3·5 (60)	5·5 (95)	5·7 (98)	5·8 (100)	10·5 (180)
Chemical production	—	—	—	(100)	(150)
Synthetic rubber	—	—	—	(100)	(200)
Nitrate fertilisers	—	—	—	(100)	(180)
Phosphate fertilisers ..	—	—	—	(100)	(200)
Potash fertilisers .	—	—	—	(100)	(130)
Machinery production	—	—	—	(100)	(200)
	1933-37 ave.				
Tractors	96,000		—	(100)	(360)
Locomotives	1,430		—	(100)	(240)
Freight trucks	56,000		—	—	—
Metallurgical equipment	—		—	(100)	(370)
Electrical equipment	—		—	(100)	(250)
Automobiles	—		—	(100)	(340)
Consumers' Goods:					
Cotton textiles ('000,000,000 metres)	2·42	3·45	3·49	—	4·69
Woollen textiles ('000,000 metres)	89	108	114	—	159
Leather footwear ('000,000 prs)	85	164	213	—	240
Paper ('000 metric tons) .	479 (59)	832 (103)	— —	812 (100)	1,340 (165)

B.—Agriculture

	1932	1937	1938	1939	1940	1950 Target
Gross grain harvest ('000,000 metric tons)	70 (59)	120 (100)	95 (80)	105 (88)	119 (100)	127 (107)
Sugar beet harvest ('000,000 metric tons)	6·6 (31)	21·9 (103)	16·7 (79)	21 0 (99)	21·2 (100)	26·0 (122)
Sugar production ('000,000 metric tons)	—	—	—	—	(100)	(112)
Raw cotton ('000,000 metric tons)	1·27 (51)	2·58 (104)	2·69 (108)	2·82 (114)	2·48 (100)	3·10 (125)
Flax and hemp ('000 metric tons)	— —	— —	— —	— —	575 (100)	800 (139)
Sunflower seed ('000,000 metric tons)	— —	— —	— —	— —	3·3 (100)	3·7 (111)

C.—Foreign Trade

(a) *Composition of Soviet Exports and Imports*
(% of value in 1936 roubles)

	Exports			Imports		
	Foodstuffs and Animals	Raw Materials and Semi-Manufactures	Manufactured Goods	Foodstuffs and Animals	Raw Materials and Semi-Manufactures	Manufactured Goods
1929 ...	21·5	62 7	15 8	9 8	43·6	46·6
1930 ...	31·6	53·2	15·2	11·0	25·3	63·7
1931 ..	35·2	47·7	17·1	6·6	19·2	74·2
1932 ...	22·5	53·5	24·0	10·1	16·5	73·4
1933 ...	19·0	58 1	22·9	8·5	25·5	66·0
1934 ..	16·1	60·3	23·6	14·1	38·9	47·0
1935 ...	19·0	62·0	19·0	12 6	43·9	43·5
1936 ..	13·4	66·8	19·8	10 6	34·9	54·5
1937 ..	22·9	58·6	18·5	9·8	49·9	40·3

(b) *Trend of Foreign Trade,* 1929-1938

		1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Million roubles	Exports ..	4,046	4,539	3,553	2,518	2,168	1,832	1,609	1 359	1,729	—
	Imports .	3,857	4,638	4,840	3,084	1,525	1,018	1,057	1,353	1,341	—
Million tons	Exports	14.15	21 49	21 78	17 97	17 92	17 34	17.19	14.20	12.97	9.68
	Imports .	1.94	2.86	3 56	2.32	1 24	1.03	1.26	1.16	1.29	1.13

Introduction to

"LATIN AMERICA AND WORLD TRADE"

UNTIL very recently it was true that the basis of the foreign trade of every one of the twenty Latin American countries lay in the export of one or two raw materials and the import of capital and of manufactured consumer goods. This meant that every one of them was highly vulnerable and easily dislocated by changes in prosperity in the great industrial countries. Such capital equipment as was found in Latin American countries was very largely foreign owned—either by British or United States investors. As a result of the war all the Latin American countries have large dollar and sterling balances, all to some degree or another have war-inflated and uneconomic industries, all are determined to push on with industrialisation, and many of them have found new markets for their products. All of them, in short, are determined to get out of their pre-war colonial status. In spite of her war-time policies the Argentine is once more the leader of the Latin American countries, and her policy is likely to become a pattern for all of them. This policy includes the rapid acquisition of new capital goods—but this time on more favourable terms—from Britain and the United States, and the progressive industrialisation of the country, in so far as this can be achieved in spite of limited resources in coal and iron.

At present most of the Latin American countries are faced with serious monetary difficulties. War prosperity has greatly inflated the supply of money and distorted the general economic pattern. These difficulties are, however, likely to be temporary, and in the normal post-war world at least the Argentine and Brazil—the latter with a growing textile trade—are likely to play a much bigger part in world trade.

Section 5

LATIN AMERICA AND WORLD TRADE

By Michael Hilton

NOTE: Because of the multiplicity of exchange rates used in the foreign trade of Latin American countries, and the varying methods used by individual countries in compiling their trade returns, figures relating to the same facts often vary considerably according to their sources. In the following article, official figures of the countries concerned have been used throughout and converted to sterling at the appropriate rate, except when dealing with British trade, when the official British figures have been used. The latter, of course, show Latin American imports from Britain at their f.o.b. values and Latin American exports to Britain at c.i.f. values.

LATIN America consists of twenty countries. Ten are in South America, seven in Central America and three in the West Indies. Between them these twenty countries have

6.9 per cent. of the world's population;
14.2 per cent. of the world's land surface;

and they normally account for

8-9 per cent. of total world trade.

All these countries live, in the main, by exporting raw materials and primary products, either mineral or agricultural, and importing manufactured articles. Latin America, as a whole, and nearly all the individual countries, usually export more than they import.

Generally, one or two products alone account for the greater part of each country's export trade. Mineral oils made up 92 per cent. of Venezuela's exports in 1938, sugar 79 per cent. of Cuba's, tin ore 76 per cent. of Bolivia's, copper and nitrates 68 per cent. of Chile's, coffee and cotton 63 per cent. of Brazil's, bananas 59 per cent. of those from Honduras, and so on.

Though manufactured goods play, except in the case of Argentina and Brazil, no rôle of any consequence in Latin American exports, progress has been made, particularly under the impact of two world wars which have cut off normal sources of supply, in the development of domestic manufacturing industry. In nearly every country where

such industry exists, textile manufacturing is the section that has advanced most rapidly.

Latin America is remarkable for the extent to which major products and services are controlled by foreign ownership. The railways in Argentina and Peru, copper and nitrates in Chile, oil in Venezuela and Colombia, sugar in Cuba are a few examples. British and United States investments in Latin America were estimated to amount to something like £1,738 million in 1939. About £36 million of the sterling debt is at present in default.

Of total Latin American exports in 1938 amounting to £367 million, Europe took 53 per cent. and the United States 26 per cent.

Of total Latin American imports for that year of £298 million, Europe supplied 46 per cent. and the United States 32 per cent.

Intra-Latin American trade accounted for 18 per cent. of imports and exports.

Britain supplied 13 per cent. of imports and took 20 per cent. of exports.

Germany's share had increased from 10 per cent. of imports in 1928 to 15 per cent. in 1938, and from 10 per cent. of exports to 12 per cent. over the same period.

Argentina alone was responsible for roughly one-quarter of all Latin American trade pre-war. Argentina, Brazil and Venezuela accounted between them for over half. And these three countries, together with only six others—Mexico, Cuba, Chile, Colombia, Peru and Uruguay (in something like that order of importance)—did more than four-fifths of the total.

The eleven remaining Latin American countries each did less than 2 per cent., and accounted between them for under one-fifth of the total.

Latin American Trade and the War

The main effects of the 1939-45 war on the foreign trade of all the Latin American republics can be summarised as follows:

1. The importance of the United States, both as a market and as a source of supply, has increased enormously.
2. The war has brought prosperity, in the form of very large dollar and sterling balances, mostly the former.
3. Industrial development has been greatly stimulated, only to be held in check by the impossibility of importing machinery and plant. Estimates of the industrial equipment requirements in the first ten post-war years of each of the twenty Latin American countries* add up to a total figure of some £2,900 million.

*Prepared by the U.S. Office of the Co-ordinator of Inter-American Affairs, 1944.

4. The search for substitutes for European customers and suppliers has had two other results, apart from (1) above:
   (*a*) Trade with certain British Empire countries, notably Canada, South Africa, India, Australia and New Zealand, has increased, and in some directions been initiated.
   (*b*) Intra-Latin American trade has increased.

Britain and the U.S.A. in Latin American Trade

With Germany out of the running the only two countries likely to be engaged on a major scale in Latin American trade in the immediate future are Great Britain and the United States. Here then is a brief summary of the relative positions of these two nations in respect to their trade with the Latin American group as a whole, before looking at individual countries in detail.

Absolutely and relatively, British exports to Latin America have declined, and British imports from Latin America have increased in the last eight years. In 1938 exports, at £36.7 million, were 6.9 per cent. of all Britain's exports and 12.8 per cent. of her exports to foreign countries. In 1945, at £17.4 million, the proportions were 3.9 per cent. and 7.7 per cent. respectively. Imports from Latin America into Great Britain in 1938, at £75.5 million, were 8.2 per cent. of total British imports and 13.8 per cent. of imports from foreign countries. In 1945, at £104.9 million, the proportions were 9.5 per cent. and 18.1 per cent. respectively.

So Britain's visible adverse balance with Latin America increased from £38.8 million in 1938 to £87.5 million in 1945. And in addition, the disparity between Britain as buyer and Britain as seller became more marked proportionally, within the distribution of her world buying and world selling.

United States exports to Latin America in 1938, at £95.4 million, were 18 per cent. of all U.S. exports; and for the first half of 1945 they represented 10.2 per cent. of all exports. But, for the Americans anyhow, their relative importance had increased, for on the basis of total "cash-purchase" exports, i.e., ignoring lend-lease shipments, which figured large in U.S. exports to other countries, the Latin American countries took, not 10.2 per cent. but 32 per cent. United States imports from Latin America in 1938, at £95.4 million, were 26 per cent. of all U.S. imports; for the first half of 1945 they made up no less than 40 per cent. of all imports. From 1938 to 1944 Latin American exports to the United States more than doubled in volume, and rose in value from a 1936-38 average of $485 million to $1,055 million in 1944.

The United States' tight grip on Latin American trade, caused mainly, but by no means entirely, by the upheavals of the war, is

likely to carry over into the peace. It will be an important factor in world trade in coming years.

The Trade of Latin American Countries

In the necessarily condensed accounts of the trade of individual Latin American countries that follow the same kind of facts are, so far as possible, given for each country. These consist mainly of an analysis of immediate pre-war trade, with an account of changes brought about during the war.

Argentina

Of all Latin American countries Argentina ranks first in value of imports and exports and in the level of domestic manufacturing industry, though in population (13,500,000) and area (1,113,000 sq. miles) she takes second place after Brazil. Argentina is also the country with which British financial, commercial and trade interests in Latin America are most closely linked.

Total Argentine exports in 1938, amounting to £93.3 million, went principally to:

Great Britain	33 per cent.
Germany...	11.5 „
Other Europe	28.5 „
United States	8 „
Brazil	7 „

Agricultural and animal products accounted for 92 per cent. of exports. Meat was 22.5 per cent. of the total, corn and linseed 13 per cent. each, and wool 11 per cent. Over three-quarters of Argentine meat exports were taken by Great Britain.

Total imports of £90.4 million were supplied principally by:

Great Britain	19 per cent.
United States	16 „
Germany...	10 „
Other Europe	30 „
Other Latin America ...	11 „

More than two-thirds of imports were textiles, fuel, iron and steel and their manufactures, and machinery and vehicles. Britain supplied 28 per cent. of all textile and fuel imports, Germany 24 per cent. of iron and steel and their manufactures, and the United States 54 per cent. of machinery and vehicles in 1937.

The two outstanding developments in Argentine trade during the war have been:

1. A remarkable increase in the export of manufactured goods, compensating to some extent for a very heavy fall in exports of cereals and linseed; and

2. Increased trade with the other American countries, partly compensating for the loss of European markets and suppliers.

Before the war Argentina was already the leading manufacturing country in Latin America, and the war has greatly accelerated industrialisation. Manufacturing industry has in fact shown a relatively more rapid expansion in recent years than agriculture. From 1935 to 1941 the number of establishments increased from 40,000 to 58,000, the number of employees from 538,000 to 862,000, and gross value of production from 3.5 to 6.3 billion pesos.

The following table shows some of the more striking increases in Argentine exports of manufactured goods during the war. (Note: Conversion rates used are, for 1938, 15 pesos = £1, and for 1943, 13.5 pesos = £1. The sterling equivalents resulting are not exact, owing to different exchange rates used for different categories, but they serve to give a general picture of greater interest for most readers than would a table in pesos.)

Exports from Argentina by Value (manufactured goods).

	1938	1943
	£000's	£000's
Textiles	229	14,513
Chemicals, etc.	89	3,251
Iron and steel manufactures	82	924
Leather goods	·0 4	901
Pottery, glass, etc....	21	766
Machinery and vehicles	200	684
Other metals and their manufactures	78	493

South Africa emerged as an important, though probably temporary, customer for Argentine textiles, and Brazil and Chile took increased quantities of Argentine goods of most kinds.

A spirit of economic nationalism is abroad in Argentina, as in many Latin American states, domestic manufacturing industry will certainly be protected and encouraged in every way. The major elements of heavy industry are lacking. Coal and iron deposits are of poor quality and limited quantity, and water-power sites are located mostly in undeveloped areas. Nevertheless, it seems likely that home industry will continue to supply an increasing proportion of local and other Latin American demand for a wide range of manufactures, particularly in the lower price levels.

Argentine requirements of industrial equipment of all kinds during the first ten post-war years are estimated to amount to something like £292 million.

"Invisible" items, chiefly interest on investments and payment for

shipping services, play an important part in British-Argentine trade, and were sufficient in 1938 to turn an unfavourable (for Britain) merchandise balance of £19.7 million into a favourable balance of more than £4 million. At the end of 1943 British investment in Argentina was estimated at £384 million, more than half of which was in railways.

Argentina, under the Presidency of General Perón, will certainly seek to foster trade with Great Britain and with the Soviet Union. Outstandingly among Latin American countries, her attitude to the United States, the "colossus of the North", is one of ostensible independence.

Brazil

Brazil, largest of the Latin American countries in population (45,000,000) and area (3,300,000 sq. miles) takes second place after Argentina in value of exports and imports. Exports in 1938 constituted 16 per cent. and imports 20 per cent. of the total for Latin America.

Brazil accounts for three-quarters of the world's production of coffee, is the second largest producer of cocoa and oranges, and the third largest producer of sugar and tobacco.

The proportion of total Brazilian exports contributed by coffee and cotton has decreased steadily—from 74 per cent. in 1934, to 63 per cent. in 1938, to 37 per cent. in 1943. The greater diversification of exports represented by these changes is the outstanding feature of Brazil's economy in the past ten years. Up to 1938 increased exports of meat (chilled and frozen), cocoa, carnauba wax, pinewood and castor seed were largely responsible; and during the war the proportion taken by coffee and cotton was further reduced by larger shares for textile manufactures, meat (canned), iron ore, rock crystal, rice, rubber and tyres.

In 1938 the United States took 34 per cent. of Brazilian exports and supplied 24 per cent. of imports; Germany took 19 per cent. of exports and supplied 25 per cent. of imports; Britain took 10 per cent. of exports and supplied 10 per cent. of imports.

Although the value of exports increased from £68 million in 1938 to £143 million in 1944, the volume decreased from 3.9 million tons to 2.7 million tons. The proportion taken by other American countries rose from under half to over three-quarters.

Imports, amounting in 1938 to £59.9 million, consist chiefly of manufactured goods, of which machinery and apparatus make up the largest category.

Brazilian industrialisation, begun during the 1914-18 war, has been greatly stimulated during the past decade owing to an increasing spirit of economic nationalism similar to that prevailing in Argentina, and to the effects of the second world war. On a long view, it is probable that manufacturing industry in Brazil will come to play a comparatively

more important part in the economic life of the country than in the case of Argentina. Deposits of iron ore are among the largest in the world, and there are also manganese, bauxite, asbestos, magnesite, china clay, limestone and coal. Cotton manufacturing, with over three million spindles, is at present the largest industry, and cotton piece goods, together with artificial silk yarn, jute yarn and woollens, contribute substantially to Brazilian export trade—accounting for as much as one-eighth of the total in 1943.

A very wide range of consumer goods for the home market, ranging from cosmetics and pharmaceutical goods to glass and chinaware and electric light bulbs and fittings, is turned out by Brazilian industry. There is little doubt that industrial production will continue to expand. Industrial equipment needed by Brazil in the first ten post-war years is estimated at about £915 million.

Brazilian exports to Britain, which were valued at £21.4 million in 1945, compared with £7.7 million in 1938, would benefit by any modification of the Ottawa agreement, under which her main products, coffee, cotton, cocoa, meat, hides, citrus fruits and vegetable oils, are unable to compete effectively for the British market with Empire products.

Imports from Britain were valued at £3.45 million in 1945, compared with £5.3 million in 1938.

British investment in Brazil is estimated at some £160 million, largely in public utilities.

Venezuela

Venezuela (population 4,200,000; area: 395,000 sq. miles) has the highest national income per head of population of any Latin American country. It ranks third in Latin American trade, contributing 15 per cent. of exports and 7 per cent. of imports of the whole group in 1938.

Venezuela lives almost entirely on oil, which made up 93 per cent. by value of all exports in 1938, coffee following on behind with 3 per cent. of the total. Value of total exports in that year was £39.9 million, of which the Netherlands West Indies took 76 per cent. (oil for refining and re-export, principally to Britain) and the United States 13 per cent.

Of total imports in 1938, amounting to £18.8 million, machinery, metals and their manufactures accounted for 48 per cent., food and drink 11 per cent., and textiles 10 per cent. The United States supplied 56 per cent., Germany 12 per cent., and Britain 7 per cent. of the total.

Although the Venezuelan Government is conforming to the general Latin American tendency in trying to stimulate industrial development by high import duties on foreign articles that compete with domestic goods, and by exempting certain machinery and raw materials from

duty, industrial production is unimportant and confined mainly to light consumer goods like cotton textiles, soap, cigars and cigarettes.

British exports to Venezuela were £1.5 million in 1938 and £1.1 million in 1945. British imports direct from Venezuela were £1.4 million in 1938 and £0.85 million in 1945.

Mexico

Mexico (population: 19,500,000; area: 765,000 sq. miles) accounted in 1938 for 11 per cent. of the exports and 7 per cent. of the imports of all the Latin American countries, taking fourth place in the group as a trading nation.

Total exports in that year, amounting to £37.9 million, were taken principally by:

United States	56.2 per cent.
Great Britain	9.4 "
Germany	7.7 "
Belgium	4.6 "

Though most Mexicans live by "agriculture" or the grazing of livestock, metals and mineral products form the mainstay of the economy and account normally for three-quarters of exports. Mexico is the largest producer of silver in the world—she provides one-third of the world supply—and among the world's largest exporters of lead and mineral oils. Lead, gold, silver, zinc, copper, antimony and cadmium made up 65 per cent. by value of exports in 1938. Production of oil has fallen steadily since 1921, when Mexico produced 193 million barrels—one-quarter of world output—to the present rate of something between 30 and 40 million barrels a year.

Non-mineral exports, which go almost entirely to the United States, include coffee, sisal, bananas and chicle (used for making chewing gum).

Imports amounting to £22.3 million in 1938 were supplied principally by:

United States	57.8 per cent.
Germany	18.9 "
Britain	4 "
France	4 "

The main items in imports were vehicles, textiles and machinery.

Value of industrial production in Mexico was estimated at £153 million in 1940, of which about half was contributed by factory products. Of the latter, food and drink and textiles, each with an output in excess of £20 million, were the most important. As with other Latin American countries, the immediate future of manufacturing industry in Mexico lies in contributing a larger share of home consumption, rather than participating to any extent in exports. Imports

of such articles as cement, raw rayon, tyres, paints and glassware are certain to be greatly reduced, if not eliminated altogether, as a result.

Mexican imports from Britain increased from £0.86 million in 1938 to £0.94 million in 1945. Exports from Mexico to Britain decreased from £2.1 million in 1938 to £0.1 million in 1945.

Chile

Chile (population: 5,024,000; area: 290,000 sq. miles) accounted in 1938 for 8 per cent. of Latin American exports and 7 per cent. of Latin American imports.

Chile is the only producer in the world of natural nitrate of soda, and the second largest producer of copper. Her foreign trade is almost entirely dependent on these two products, which normally account for 80 per cent. of exports. As the greater part of the nitrate and copper holdings are foreign owned, Chile does not receive the full amount of the proceeds.

Other important exports are wool, vegetables and cereals.

Exports in 1938, amounting to £28.4 million, went mainly to:

Britain	22 per cent.
United States	15 "
Germany	10 "
Belgium	8 "

Germany, under the system of barter trading embodied in the compensation agreements entered into by Chile with many countries (but not with Britain) in the nineteen-thirties, was supplying, by 1938, 26 per cent. of total Chilean imports amounting in that year to £20.8 million, compared with 28 per cent. supplied by the United States and 10 per cent. by Britain. In 1936 Germany had actually been Chile's principal supplier, with 29 per cent. of imports, compared with 25 per cent. from the United States and 13 per cent. from Britain.

The principal imports are transport materials, metal manufactures, machinery, textiles, chemicals and foodstuffs.

During the war something like three-quarters of Chilean exports were taken by the United States, and important new markets were found in Brazil and Argentina. The United States remained the largest single supplier, and Peru, Brazil and Argentina greatly increased their exports to Chile.

Chilean manufacturing industries, under intensive protection and assistance, now cater for a large proportion of the home demand for such articles as cement, paints and varnishes, toilet soaps, woollen piece goods, canned fruit and vegetables, gin and cigarettes; but, apart from insignificant exports of plastic and metal fittings during the

war to other South American countries, manufactured goods do not figure in exports.

Exports from Chile to Britain were £7.9 million in 1938 and £1.6 million in 1945. Imports from Britain were £1.7 million in 1938 and £1.0 million in 1945.

Cuba

Cuba, with 8 per cent. of exports and 7 per cent. of imports in 1938, shares fifth place with Chile in Latin American trade. The relatively high place occupied by this small country (population: 4,230,000; area: 44,164 sq. miles) is due entirely to its production and export, mainly to the United States, of sugar, of which it is the second largest producer in the world.

Cuba and its sugar industry are really an economic dependency of the United States. Over 80 per cent. of the sugar mills are American-owned, and United States investment in Cuba, amounting to something like £240 million, is the largest in any country in the Western hemisphere except Canada.

Cuban exports in 1938 of £30.9 million were taken principally by the United States (76 per cent.) and Britain (14 per cent.). Four-fifths of exports were sugar, of which the United States took over two-thirds. One-tenth of the total was tobacco

Imports of £21.3 million were supplied as to 71 per cent. by the United States, with Britain and Germany securing 4 per cent. each. Foodstuffs accounted for 28 per cent. of imports, textiles for 18 per cent. and machinery for 12 per cent.

The effect of the war was, somewhat naturally, to increase still further the importance of trade with the United States and other American countries. India, as an exception, made an increased contribution to imports—2.4 per cent. of the total in 1943, the same proportion as imports in that year from Britain.

The latter amounted to £861,000 in 1938 and £522,000 in 1945. Exports to Britain from Cuba were £4.8 million and £12.8 million for the same two years respectively.

Colombia

Colombia (population: 9,700,000; area: 440,000 sq. miles) contributed 5 per cent. of exports and 6 per cent. of imports of all Latin American countries in 1938.

The main product is coffee (62 per cent. of exports in 1938), followed by oil (26 per cent). Coffee, oil, bananas and gold together made up over 95 per cent. of exports in the ten years before the war. The oil companies are American-owned, and so direct proceeds from oil exports stay outside Colombia.

Exports in 1938 of £18.6 million went mainly to:

United States	58 per cent.
Germany	13 „
Netherlands West Indies	10 „
Canada	9 „

Britain took less than one-half of one per cent.

Imports in 1938 of £18.2 million were supplied mainly by.

United States	51 per cent.
Germany	17 „
Britain	12 „
France	3 „

Over 90 per cent. of imports were manufactured articles. Development of local industry is reflected in a steady decrease, over the last ten years in the proportion of imports which consist of textiles, although, with one-fifth of the total, they remain the largest class; and by a consistent increase in machinery imports.

Strategically as well as economically, Colombia is linked intimately with the United States, and this dependence has considerably increased as a result of the war. Nevertheless, it is the only Latin American country of any importance with which Great Britain has for many years enjoyed a substantial visible export balance. Colombian imports from Britain in 1938 were £1.8 million, compared with exports to Britain of £0.25 million. In 1945 the figures were £0.9 million and £0.1 million respectively.

Peru

Peru (population: 7,023,000; area: 502,500 sq. miles) accounted in 1938 for 4 per cent. of Latin American imports and exports.

Petroleum and copper represented 50 per cent. of exports, and other mineral products a further 14 per cent. About four-fifths of petroleum production and nearly all mineral production is American owned. In consequence, cotton (20 per cent. of exports), sugar (8 per cent.) and wool and hides (5 per cent.) are of greater relative importance to essential Peruvian prosperity.

Up to 1936 Britain was Peru's best customer, taking one-quarter of her exports. From 1937 onwards this place was taken by the United States. The 1938 distribution of total exports amounting to £15.7 million was:

United States	27 per cent.
Britain	20 „
Other European countries (principally Germany and France)	25 „
Other Latin American countries (principally Argentina and Chile)	20 „

Imports, amounting to £12 million, consist almost entirely of machinery and other manufactured goods, and foodstuffs. In 1938 they were supplied principally by:

United States	34 per cent.
Germany	18 „
Britain	10 „

Manufacturing industry in Peru covers a wide range of light consumer goods. In the case of textiles, the largest industry, imports have been noticeably reduced, as in other Latin American countries, as a result of increasing home production. Imported cement, also, now has difficulty in competing with the home product. There is no heavy industry in Peru.

Exports to Britain from Peru amounted to £3.4 million in 1938 and £1.7 million in 1945. Peruvian imports from Britain in these years were £1.1 million and £0.6 million respectively.

Uruguay

Uruguay (population: 2,186,000; area, 72,300 sq. miles) is the smallest, and in many ways the most politically adult country in South America, with a social outlook and tradition much in harmony with those of Western Europe. In Latin American trade Uruguay ranks approximately ninth, contributing 3 per cent. of all Latin American exports and imports in 1938.

Before the war, pastoral and agricultural products—chiefly meat, wool and hides—constituted normally about 99 per cent. of exports. During the war this proportion fell to about 90 per cent., the difference being caused mainly by exports of manufactured articles.

Of total exports in 1938 amounting to £11.2 million, Britain took 26 per cent., Germany 23 per cent, Argentina 10 per cent, and the United States only 4 per cent. By 1943 the United States was taking 54 per cent. and Britain 33 per cent.

Imports, amounting in 1938 to £13.6 million, were supplied principally by:

Britain	20 per cent.
Germany	17 „
United States	12 „
Brazil	7 „
Argentina	4 „

During the war very considerable increases in imports from the last three countries named went some way to compensate for the loss of supplies from Germany and the reduction of imports from Britain to about 10 per cent. of the total.

In pre-war years Uruguay usually had an unfavourable visible trade balance. This was normally covered by the tourist industry, which

catered mainly for visitors from Argentina and was estimated to bring in about £1.2 million annually.

Manufacturing industry in Uruguay is comparatively highly developed, though most of its raw materials have to be imported. The most important section is textiles, in particular wool spinning and weaving, and substantial exports to South Africa and to neighbouring South American countries were built up during the war. Among manufactured articles which were exported from Uruguay for the first time during the war were boots and shoes, watches, glassware, iron piping, cognac and jewellery.

British imports from Uruguay amounted to £3.9 million in 1938 and £5.3 million in 1945. Imports by Uruguay from Britain were £2 2 million in 1938 and £1.1 million in 1945.

Other Latin American Trade

The eleven Latin American countries not mentioned individually above each contribute normally under 2 per cent. of Latin American imports and exports.

Eight out of the eleven are the small tropical agricultural countries of Central America and the Caribbean—Guatemala, Honduras, Salvador, Nicaragua, Costa Rica, Panama, the Dominican Republic and Haiti—which live, in the main, by exporting either coffee or bananas, or both. The only exception is the Dominican Republic, which lives by exporting sugar; and in the case of Nicaragua, gold has an equal share (40 per cent. by value in 1938) in exports with coffee and bananas.

In all the eight countries imports consist chiefly of food and manufactured articles, and the United States is, with one exception, both principal supplier and best customer. The exception is again the Dominican Republic, for which the United States is the main supplier, but Britain the best customer.

All the eight except one normally have export balances. The exception is Panama, which in the period 1936-38 averaged an import balance of about £3 million annually. This was met in the main by the rendering of services and the expenditure of ship's crews and tourists in the Canal zone.

Of the three remaining Latin American countries—Bolivia, Ecuador and Paraguay—Bolivia is a mineral producer, three-quarters of her exports consisting of tin ore; 65 per cent. of her imports are manufactured goods. In 1938 the United States supplied 25 per cent of imports and took 5 per cent. of exports; Britain supplied 7 per cent. of imports and took 62 per cent. of exports.

Paraguay is an agricultural country, relying on cotton, meat products, quebracho extract (tannin), hides and skins and yerba maté for

exports, and geographically entirely dependent, for both exports and imports, on Argentina. The most notable change in her foreign trade during the war has been the substitution of Brazil as a source of textiles for Japan, which in 1938 supplied 15 per cent. of total imports. Almost the whole of Paraguay's meat production was shipped to Britain during the war years.

Ecuador before the war depended on coffee and cocoa for nearly half her exports, oil for 14 per cent. and gold and copper for 12 per cent. During the war rice and balsa wood became important exports, accounting in 1943 for 35 per cent. of the total, with coffee and cocoa providing 22 per cent. Much of the local demand for textiles, shoes, pharmaceutical products and cement is catered for by domestic manufacturing.

In Conclusion

The Latin American world presents a picture of primary producers, which are still developing economically, all struggling to achieve a greater degree of genuine economic independence—to free themselves both from too much foreign control in the form of investment and ownership and from too great a dependence on foreign sources of supply for the materials of living.

With their great resources for the production of mineral, animal and agricultural commodities, many still largely undeveloped, Latin American countries will clearly continue to constitute one of the world's great storehouses of natural products. To what extent a superstructure of industrial production will be built on this foundation must depend on the way world trade in general develops in the next twenty years, and not least on political factors. Increasing industrialisation there will certainly be, and with it rising standards of living and, it is hoped, education for the great masses of Mestizos, Indians, Mulattos and Negroes who make up four-fifths of the 120,000,000 "Latin Americans".

Introduction to

"THE MIDDLE EAST AND WORLD TRADE"

DURING the war the Middle East became a great Allied military base, with drastic consequences for its economy. Local money incomes and holdings of foreign exchange multiplied rapidly. Simultaneously supplies of foreign manufactures were sharply reduced and, particularly in Egypt and Palestine, there was a great expansion of local industries, partly to meet the needs of the Allied armies and partly to make the Middle East as a whole as self-sufficing as possible by inter-territorial trade—supplemented by large imports from India.

Before the war every one of the Middle East countries was predominantly agricultural, and their overseas trade was tied very closely to Great Britain.

Since the beginning of 1946 war-time boom conditions with their concomitants of full employment, high wages, and easy profits have collapsed. The industrialisation of the Middle East was highly precarious—most raw materials have to be imported and resources in capital goods are still slight. The whole of the area stands urgently in need of large imports of capital goods. The sterling and dollar balances are there, but the extreme inequality of wealth results in an undue emphasis on the importation of luxury consumer goods. Unless there is joint aid by the Big Three the Middle East is likely to remain a conglomeration of depressed areas living under the shadow of its strategic importance to Britain America, and, not least, to Russia.

Section 6

THE MIDDLE EAST

By Tibor Mende

DURING the war far-reaching changes have occurred in the patterns of local production and foreign trade of the Near Eastern countries. The general position of their balance of payments as well as their trading with their neighbours underwent fundamental changes. For several years imports, especially of manufactured goods, were sharply reduced. Simultaneously, local money incomes and resources of foreign exchange were greatly increased. This was largely due to the enormous expenditure of foreign, mostly British, forces during the war in many Near Eastern countries. As a result of the curtailment of imports manufacturing industries have considerably expanded in Egypt, but especially in Palestine. Inter-territorial trade between the Near Eastern countries has also substantially increased under the direct encouragement and with the assistance of the Middle East Supply Centre. This trend was accentuated by the war-time restrictions on overseas trade in the form of import and exchange controls. All these influences combined to bring about completely new trends in the economic development of the Near East and their influence is likely to be felt even in the post-war years, when many of the original causes will have ceased to operate.

One may summarize the main features of the foreign-trade patterns of the Near Eastern countries in five points:—

(1) The concentration of their exports upon a few staple agricultural commodities;

(2) A concentration of export and import trade with the United Kingdom;

(3) A spread of imports over numerous manufactured and semi-manufactured goods, mainly textiles;

(4) A noticeable tendency for the United Kingdom's relative share in trade to decline and for the United States' share to rise; and

(5) an almost uniform increase of sterling balances in nearly all the Near Eastern countries.

How far these generalisations are applicable to all the Near Eastern countries, and to what degree do exceptions alter the general picture, we shall have to examine in detail.

The biggest and most important country of the Near East is *Egypt.* With a quickly expanding population and a vigorous programme of industrialisation, Egypt is destined to play an increasingly important rôle in international trade. Before the war Egypt's export of raw cotton regularly accounted for between two-thirds and three-quarters of the value of all her exports. Exports of cotton seed constituted another 5 per cent. Rice, onions, eggs, flax, sugar, wheat and barley, hides and skins and raw wool were other agricultural produce on Egypt's export list. Phosphate and manganese, as well as oil refined in Egypt, were export items of increasing importance. The principal items of Egypt's imports were textiles (declining in value owing to growing home production), chemicals and fertilizers, coal and mineral oil, metals and machinery, processed foodstuffs, drinks and vehicles.

Until 1938 Egypt's foreign trade usually resulted in a surplus of exports. After 1937 there has been a deficit each year, the largest being £E.36,759,000 in 1942. This reversal was largely due to the steady fall in cotton prices. Until 1930 Egypt's trade, with the U.S.A., for instance, usually resulted in a large surplus, but the 7 cent. tariff on long-staple cotton, introduced in the U.S. in that year (subsequently reduced) and the quotas, introduced in 1939, caused the trade to show a deficit. The following table shows the values and destination of Egypt's exports in the last two pre-war years:

Destination	1938		1939	
	£E.000's	% of Total Exports	£E.000's	% of Total Exports
United Kingdom ...	9,436	33·0	11,326	34·6
Germany	3,354	11·7	2,214	6·8
France	2,318	9·1	3,500	10·7
Japan	1,841	6·4	2,428	7·4
Italy	1,745	6·1	1,517	4·7
British India.	1,538	5·4	1,982	6·0

Czechoslovakia, Switzerland, U.S.A., Rumania and Poland follow with under 4 per cent. each, with Switzerland and the U.S.A. considerably increasing their share in 1939.

Egyptian imports, on the other hand, were supplied by the following countries.

Source	1938 £E.000's	1938 % of Total Imports	1939 £E 000's	1939 % of Total Imports
United Kingdom ...	8,422	22·9	9,371	27·6
Germany ...	3,735	10·1	2,681	7·9
Italy ...	3,004	8·2	2,060	6 1
U.S.A.	2,456	6 7	2,682	7·9
Belgium	2,074	5 6	1,693	5·0
France ...	1,936	5 3	1,990	5·9

Netherlands East Indies, Rumania, Chile, Japan, British India and the Netherlands follow as chief suppliers each with under 5 per cent.

As in the case of the other Middle East countries, Egypt's trade was transformed and inter-territorial trade with its neighbours gained momentum. While supplies from the United Kingdom amounted to over £E.9 million in 1939, they declined to just over £E.7 million in 1943. On the other hand, U.S.A. supplies, over £E2.5 million in 1939, increased to nearly £E.4.5 million in 1943; and imports from India, only £E.792,000 in 1939, mounted to £E.3,597,000 during the same period. A corresponding re-grouping of Egypt's exports occurred during the war years. In 1939 exports to the United Kingdom totalled £E.11,326,000, but in 1943 only £E.8,928,000. On the other hand, exports to the U.S.A., just over £E.1 million in 1939, doubled by 1943; and exports to India, just under £E.2 million in 1939, rose to £E.7,447,000.

The decline in Egypt's total imports and exports, noticeable during the pre-war decade, experienced a further decline during the war, when Egypt served as an important base of military operations and played a decisive strategic rôle in the Mediterranean war. As a result, Egypt's negative trade balances between 1939 and the end of the war showed a progressive and marked deterioration. Besides far-reaching restrictions and controls, this was largely due to the virtual cessation of Egyptian exports to the United Kingdom, with the exception of some raw cotton shipments. The adverse balances shown in official statistics, however, bear little relation to the actual balance of payments, especially between the United Kingdom and Egypt. The overriding factor, in this respect, was the substantial expenditure in Egypt by the United Kingdom, and to a lesser extent by the U.S.A., in the form of payment for services rendered to the Allied forces, expenditure by the troops in Egypt and the cost of manufacturing contracts placed in Egypt. As a result Egypt is in command of a large sterling balance.

The trade of *Palestine*, before the war, exhibited a more vigorous growth than did that of the other Near-Eastern countries. In 1923 the value of Palestine imports was nearly £5 million, but by

1939 it had risen to £14,632,822. The value of exports correspondingly increased from £1,412,520 in 1932 to £5,117,769 in 1939. Though during the last pre-war years there was a relatively large adverse visible trade balance, there was a large volume of "invisible exports" which went far to preventing an adverse balance of payments. Chief among these "invisible" items were.

(*a*) Expenditure in Palestine by the British Government, as well as by tourists;
(*b*) Capital brought into the country;
(*c*) Profits on the re-export trade; and
(*d*) Returns on Palestine capital invested abroad.

In 1938 of the total Palestinian imports of £11,357,000, Germany supplied £1,645,000 (largely transfer or compensation for emigrants' property), the United Kingdom £1,496,000, Rumania £1,253,000, Syria £1,015,000, and the United States £970,000 worth of goods. The main recipients of the £5,020,000 worth of exports, in the same year, were the United Kingdom with £2,469,000, and Holland, Syria and Belgium each with under £400,000. Throughout the inter-war years the United Kingdom was by far the largest purchaser of Palestine's exports and, if not in each year, at least in 1936 and 1939 was also the largest supplier of Palestine's imports. The U.S.A., who purchased little of Palestine's exports in the pre-war years, took second place as supplier in 1939. Between 1936 and 1939 the United Kingdom supplied about 20 per cent. of Palestine imports, while she took between 45 and 55 per cent. of her exports. During the same period the U.S.A. supplied between 7 and 13 per cent. of Palestine imports and took less than 3 per cent. of Palestine exports. The principal imports into Palestine in 1939 were cotton yarns and manufactures, vehicles, iron and steel manufactures and machinery in general, food, drink and tobacco, as well as chemicals, drugs and dyes. Palestine's largest export has been citrus fruit, which consisted of about 75 per cent. of the total merchandise exports in the period prior to the war. The United Kingdom took about two-thirds of this export. Apart from some export of local manufactures before the war, among the principal industrial exports was potash and bromine from the Dead Sea. Wine and brandy as well as olive oil soap were also exports of increasing importance.

Immediately war broke out Palestine, like the other Near Eastern countries, introduced price control and rationing, control of foreign exchange, and both import and export trade was subjected to increasing controls. Palestine's largest export, citrus fruit, to the United Kingdom and other European countries, practically disappeared, due to the

increasing shortage of shipping. War-time exports went almost entirely to the small group of countries which served as sources of war-time imports largely under the war-time necessity of inter-territorial trade among the countries of the Middle East. Palestine exports to Egypt, Turkey, Syria and Iraq rose from a mere £500,000 in 1939 to £5.6 million by 1943. The considerable increase in the value of Palestine exports to the U.S.A. in 1942 and 1943 was due to the establishment in the country of a flourishing diamond-cutting and polishing industry, specialising in small stones. This industry alone was of sufficient importance in 1943 to reverse the normally negative trade balance with the U.S.A. Similarly profound changes occurred during the war in Palestine imports. The three defeated Axis Powers, and the areas controlled by them during the war, used to supply Palestine with imports to the value of over £5 million. By 1941 this had fallen to less than one-tenth. The United Kingdom and the U S.A., but especially the other British Empire countries, became of decisive importance in Palestine's war-time imports. Palestine imports from Middle East countries more than trebled during the war. Iraq supplied dates, sheep and camels, as well as crude petroleum to meet Palestine's increasing capacity for refining oil. Transjordan supplied cereals and live animals; Turkey, fish and cattle; Syria, cereals and manufactured goods; Egypt supplied foodstuffs in addition to raw cotton and molasses and some manufactured goods.

Prior to the war *Iraq* was the third country of the Near East which showed not only signs of recovery from the great depression, but was on the way towards prosperity. During the war, as in the other countries of the region, values have substantially increased, but these must largely be discounted because of the generally inflated price level. Except for sugar, tea and coffee, Iraq, an agricultural country, is virtually self-supporting. Over 60 per cent. of her population are dependent on agriculture. Iraq's sound financial position before the war was largely due to the increasing oil royalties which reached, shortly before the war, about one-third of the country's total revenue. This favourable financial position was responsible for the increasing attention paid to irrigational schemes, public works, and railway development.

Iraq's principal exports are raw wool, dates, grain, pulses and flour, hides and skins, and sausage casings. Together these amount to three-quarters of the total exports (petroleum not included). The principal imports are textiles, iron and steel manufactures, machinery and apparatus, vehicles and tyres, tea and sugar, wood and cement, paper and pharmaceuticals. Although the exports are more varied than in the case of Egypt, they are mostly unprocessed agricultural products, with crude petroleum taking an increasingly important rôle. The

imports, in harmony with the other under-industrialised Near Eastern countries, are mostly industrial manufactures, especially textile products. The regional distribution of Iraq's trade is also reminiscent of that of Egypt. Before the war the United Kingdom was responsible for about one-fourth of the country's imports and took about the same proportion of exports. Meanwhile, the U.S.A. supplied only about 8 per cent. of the imports and took nearly 20 per cent. of exports. Prior to the war the share of the United Kingdom, both in exports and imports, was on the decline and the U.S.A.'s share was on the increase. These trends were accentuated during the early war years, though with the cessation of date exports to the U.S.A. that country's share of Iraq's exports declined to under 2 per cent. in 1943.

During the war marked changes occurred both in the values and the destination of Iraq's exports. Poor harvests in 1941 and 1942 reduced her grain exports, but the sharp rise in grain prices in 1942 offset the decline in quantity. Owing to war-time conditions inter-territorial trade increased and Iraqi barley, dates, hides and skins found their way to other Middle East countries, foremost among them Syria, Turkey and Palestine. The fact that Iraq has been brought within the scheme of Middle East self-sufficiency considerably improved the country's trading possibilities. Many of these changes, divorced from world price levels and made possible only by war-time conditions, may prove to be only of temporary nature and may lead to painful readjustments in the immediate post-war years. There has been a considerable contraction in the actual volume of Iraqi imports in 1942 and 1943 (excluding military imports), most noticeable in iron and steel manufactures, machinery and cement. Regarding cotton textiles, Japan as a source of imports was replaced by India, though this did not completely bridge the gap left. Nearly all the other import items of the country suffered severe cuts under the strict licencing system, the quotas having reached the lowest figures in 1943. While imports from the United Kingdom markedly declined during the war years, Indian trade with Iraq, partly in the place of Japanese exports, has expanded. The following table illustrates the changes in the imports from Iraq's three principal suppliers between 1938 and 1943:

	1938		1941		1942		1943	
Imports from	£000's	%	£000's	%	£000's	%	£000's	%
United K. .	2,819	30·1	1,338	19·9	1,457	12·0	1,708	10·9
U.S.A. ..	849	9·1	955	14·3	1,389	11·5	968	6·1
India ...	605	6·5	1,229	19·4	6,238	51·5	8,742	55·9

The volume of imports from the United Kingdom was far lower than the values in this table would suggest. Values suggest a fall of 40 per

cent., but in reality it was as high as 90 per cent. in many commodities. The character of the import trade from India has changed considerably in so far as in the place of jute goods, cotton piece goods took the dominant share. India has also supplied important other needs, especially chemicals, sewing thread and matches.

While oil is her principal product and her main export, *Iran*, the fourth important unit in the Near East, is essentially an agricultural country. With the exception of tea and sugar Iran is self-supporting in essential foodstuffs. After mineral oil, carpets and rugs, raw cotton, raw wool, rice, raisins, almonds, opium and (in the form of a concession on the Caspian sea to the U.S.S.R.) fish are the principal Iranian exports. Cotton piece goods, metal and metal goods, machinery, sugar, tea and vehicles were her main imports. At the outbreak of the war Iran's external trade was under the control of the Foreign Trade Monopoly Law of 1931, giving the State complete monopoly of the country's foreign trade. In the case of the more important commodities, however, the State conferred its power on Monopoly Companies specially formed for the purpose. In Iran's external trade, during the pre-war years, between 1936 and 1938 the U.S.S.R. and Germany shared between them more than half of the value of Iran's exports and imports, and in 1939 the rôle of the U.S.S.R. declined seriously. During the same year imports from Germany decreased, but exports to Germany sharply rose. The U.S.A., United Kingdom and India were the next most important countries in Iran's foreign trade.

United Kingdom exports to Iran included machinery, iron and steel manufactures, motor vehicles, tools and scientific instruments, electrical goods, cotton piece goods and woollens. Germany's competition was stiff, especially in machinery, metal goods and woollen piece goods, as well as in paper and paints. The U.S.A. was Iran's chief source of motor vehicles, and the U.S.S.R. of cotton piece goods, petrol, sugar and cement. The U.S.S.R. was also a large supplier of machinery and metal goods. Japan and India were mainly sources of cotton piece goods. Following the mineral oil products, carpets, hides and skins, almonds and raisins were Iran's chief exports to the United Kingdom. The country's most valuable exports, raw cotton, raw wool and fish, went almost exclusively to U.S.S.R. and Germany.

During the war imports from Germany rose until 1941, dropped in 1942 and, naturally, ceased after the Allied occupation of Iran. Imports from the U.S.S.R., however, rose from £93,000 in 1939-40 to £2,289,000. The rise of imports was similarly conspicuous in the case of India. Compared with £840,000 in 1939-40 it reached £4,323,000 in 1943-44. United Kingdom supplies remained between half-a-million and one million pound sterling, while U.S. shipments worth £392,000 in 1939 more than trebled during the subsequent four years.

(All these figures are "commercial" imports and exports exclusive of trade under concessions.) The war-time exports of Iran show a corresponding shifting of markets. Germany, Iran's biggest buyer in 1939-40 and 1940-41, with over £5 million and £6 million respectively, dropped to just over £1.5 million in 1941-42, the last year before trade ceased between the two countries. Meanwhile export to the U.S.S.R., practically non-existent in 1939, rose to £1,889,000 in 1943-44. Exports to the U.S.A. remained around just over £1,000,000, with India around £800,000, and exports to the United Kingdom declined from £966,000 to about one-third of this figure in 1944.

The special war-time conditions have seriously stimulated industrialisation all over the Near East. Though there were industrial extensions and improvements both in Iraq and Iran, it is in Egypt and Palestine where war-time advances in industrialisation have to be considered as lasting factors likely to alter considerably these two countries' foreign trade pattern in comparison with their pre-war position.

The introduction of tariff protection in 1930 (since progressively increased) marked a decisive stage in Egyptian encouragement of industrialisation. Among the many and varied industries established in the country those based on Egyptian raw materials are most likely to be economic and be able to stand foreign competition. As a measure of the success of Egyptian industrialisation, the Egyptian Minister of Commerce and Industry stated in April, 1944, that on the outbreak of war Egypt's industries were able to cover home requirements in the production of sugar, alcohol, cigarettes and common salt, cereal milling and lamp glass. In the boots and shoes, cement, soap, tarbouches (fezzes), furniture and matches industries they were able to reduce imports to a mere fraction (usually under 10 per cent.) of the home consumption. In the case of vegetable oils, caustic soda and cotton cloth, home industries met about half the total requirements.

When the Middle East Supply Centre was established in 1941, in order to save shipping, the development of local industries became an urgent necessity. Had machinery and spare parts been available the development of Egypt's industries would have been even faster. It was the textile industries which have shown the greatest advance. A number of new chemicals are also being produced and the output of chemicals, produced already before the war, has considerably increased. The dehydrated vegetables, glucose, lead refining, ferro-alloys, cast iron pipes, steel castings, and lead tubes industries are among the noteworthy war-time additions. Production in the vegetable canning, soap, crockery, glassware, alcohol, paints and paper industries has also considerably increased.

With the development of the Red Sea's oilfields Egypt's output of crude mineral oil rose to some 1¼ million tons annually, and made imports, since 1938, unnecessary. Simultaneously, refinery output has increased and now makes a substantial contribution to home requirements, covering all civilian needs. The output of foodstuffs has also increased. Both sugar and beer output have improved considerably. Noteworthy progress has been made also in both the mechanical and electrical sides of the engineering industry. There are iron ore deposits around Aswan, on which the Egyptian Government hopes to found a basic iron and steel industry. Hydro-electric power plans exist for the development of the Aswan Dam. Other developments are planned, foremost among them the expansion of irrigational works. After the war the disappearance of restrictions and the renewal of competition will present new problems for a series of industries established during the war. Once embarked on the programme, however, it is almost certain that, in order to raise the general standard of living and to meet the problem of the rapidly-increasing population, the Government will continue to stimulate industrialisation and to stabilise the industries already established or expanded.

Similarly to the situation in Egypt, from 1941 onwards the Middle East Supply Centre encouraged the development of Palestinian local industries. The greatest development was apparent in the execution of military contracts in clothing, boots and other goods. Military contracts placed with local manufacturers, which amounted to under £1 million in value in 1940, increased to between £8 and £10 millions in 1942. (A sum in the neighbourhood of Palestine's total industrial output before the war.) The value of Palestine's total industrial output in 1942 was estimated at about £27 million and in 1943 at £36 million. Tanned hides, cotton piece goods, sheet glass and safety razors were among the new war-time exports. Export difficulties in citrus fruits developed the industry of vitamin preparations and essential oils, and this is likely to stay. Development, however, was most marked in the food, metal, leather and textile industries. Precision instruments, electric batteries and plastics, medical (especially dental) appliances, are also among the new industrial products. The diamond-cutting industry which, compared with 200 workers at the beginning of the war, now employs over 3,000, is one of the most remarkable developments of war-time industrial growth in Palestine. Another interesting development, with special interest to agriculture, is the production of super-phosphate fertilisers from the Dead Sea bromine and potash deposits. The presence of industrial skill, but dependence on foreign sources of raw material, make many of these new industries precarious. Though serious readjustments will be necessary in the period following the war, it is likely that many of the

newly-established industries will prove to be healthy and prosperous and capable even of further expansion.

The Near East countries are richer today than ever before. The large expenditure of Allied forces, the inflow of capital and the full employment throughout the war years, led to a high degree of prosperity. At the same time the whole region has been almost isolated from normal commercial relations, with the result that usual imports of consumption goods have been diminished to a trickle and local prices have risen sharply. While imports, essential as well as luxury articles, were kept on a minimum during the war years, the small industrial plant grew outworn and outmoded. In addition, a vast new consuming public is bound to come into being with the advance of industrialisation and considerable spending power is accumulated in the hands of all social classes. Moreover, the region's old sources of supply of machinery, textiles, drugs and building materials from Germany, Italy and Japan are gone for the time being. Against this background it is clear that the Near East, in the immediate post-war era, represents a potential market in need of capital equipment, consumer goods and luxury articles of a wide range.

In the short-term period a very heavy demand may be expected for consumer goods of all kinds, which were not obtainable, or obtainable only in insufficient quantities, during the war years. Capital goods for the transformation of industry to peace-time requirements will also be a major factor, and speed in delivery will be decisive. In the long-term period, however, the general development of the economy of the Near Eastern countries will have to be considered and, in all probability, a marked shift towards imports of capital goods, equipment for Public Works schemes, irrigational projects, improvement of transport and equipment of consumer goods industries will be its main features.

Owing to increasing local production, it is probable that the value of Egyptian textile imports in general, and cotton piece goods in particular, will undergo heavy reduction. The same may apply to a number of other consumer goods produced in increasing quantities in Egypt. The import of cotton textile goods from the United Kingdom to Palestine was just under £50,000, while Japan and Italy supplied them to the value of £250,000. Both countries may recapture these markets later. India is also likely to hold her war-time gains in this field. Still, the higher-quality United Kingdom piece goods are likely to remain in demand. It is probable that finer counts of cotton yarn exports to Palestine (from the United Kingdom) may increase in view of the expansion of the local textile industries. High-class type of woollen cloth should also remain in demand. In 1939 the United Kingdom and Italy were Palestine's main source of supplies in this field.

Iraq may also increase her exports of artificial silk, cotton and woollen goods.

There will be a universal demand for higher-quality consumer goods all over the Near East. The richer classes will be anxious to purchase luxury goods, unobtainable during the war, and the other classes with pent up purchasing power in their hands will look for consumer goods. Though in motor-cars the U.S. is more favourably placed, the wide demand, including omnibuses and commercial vehicles, should leave enough room for United Kingdom exporters. Besides luxury goods, domestic electrical appliances, building materials, glass and chinaware, crockery, cutlery, office equipment (including typewriters), rubber goods and innumerable other consumer needs will be in great demand.

Machinery and equipment will be, perhaps, the most pressing immediate demand of the entire region. Equipment for Public Works schemes, irrigational pumps, engines and other equipment, spares, tools, textile machinery, electrical machinery, generating units, will be the most urgent requirements.

Following the initial demand for consumer goods and machinery, the long-term period of Near Eastern economic reconstruction will offer great opportunities of capital goods exports. Most of the countries under discussion have large sterling balances at their disposal which should improve generally the prospect of United Kingdom exporters of obtaining orders for which the Near Eastern countries would be in a position to make prompt payments. They have accumulated considerable financial resources during the war which, after the initial reconversion programme, will greatly help the realisation of long-standing large-scale plans of capital improvements, Public Works schemes, improvement of transportation and large-scale irrigational plans.

The general trend in the Near East is towards industrialisation. This will go parallel with the improvement and rationalisation of often outdated, agricultural methods. With the equipment of the new industries, the technical assistance rendered in the execution of Public Works and the supply of agricultural machinery, the great industrial exporting countries may assist the Near East in achieving a higher standard of living and thereby securing a market which, ultimately, will be different from that of the past based mainly on consumer goods. This process of transition could be assisted, to the advantage of both sides, with suitable technical assistance in the form of education and personnel. The ultimate result will be a transformation of trade with the Near East, specialising on the more profitable, higher-class capital goods. By an intelligent and sympathetic adaptation to this process of transformation suppliers of the Near East can support the healthy

economic and social development of the entire region, thereby serving reciprocal interests and diminishing the dangers inherent in a strategically and economically important, but perpetually depressed area.

Introduction to

"A TARGET FOR EXPORTS"

SINCE the beginning of 1946 the volume of British exports has increased rapidly and, at least in the eyes of the Government, satisfactorily. Success at the moment, however, is comparatively easy and achievements this year do not necessarily represent what is possible in a normal post-war world. That world may not emerge until 1950, and present conditions must be regarded as transitional. Our exporters are faced with an enormous unsatisfied demand for every type of commodity, but reconversion is still incomplete and they cannot meet all the export orders that are available. We are, however, moving rapidly towards the second stage in the transition, that is, the stage where reconversion is complete. By 1948 the replenishment of stocks will probably be completed, and the reconversion of industry effected almost everywhere except in the Axis countries. The fourth and final stage in the transition will be when reconstruction is complete in every part of the world. What will Britain's position be then?

Before the war our exports paid for only 55 per cent. of our imports; the balance was met in part by the shipping and related services provided by Britain to the rest of the world, and in part by spending all the interest accruing on our overseas investments. This last source of overseas exchange has been drastically reduced as a result of the war, and in many areas Britain is a net debtor. Meanwhile the population of these islands is still increasing, and for the first time in modern history the terms of trade are moving against Britain. If we aim to maintain the same volume of imports as before the war then our immediate target must be an increase of 75 per cent. in the volume of our merchandise exports; an increase of 100 per cent. would be more realistic. But can this be achieved? Our labour force is not increasing; our supply of capital is in poor shape as a result of war-time neglect; British managerial capacity is, on the whole, poor and our technical methods of production are out of date in a wide range of indus-

tries. An increase of 75 per cent. in the volume of our merchandise exports can only be achieved by a considerable revolution in Britain's industrial methods—a revolution sufficient to raise output per head by 1950 approximately 25 per cent. above the 1938 level.

There remains one other question. Can the world absorb nearly twice as many British products as before the war? In 1938 Britain was responsible for 10 per cent. of the world's trade. It is unlikely that without any change in the total volume of world trade she could double her exports. The target in fact can only be reached if there is a great expansion in world trade, and Britain, more than any other country at the moment, must be interested in supporting every move which lowers the barriers to international trade and which raises the standard of living of overseas producers and consumers.

Chapter VI. Section 1

A TARGET FOR EXPORTS

By Jean Bird

AFTER the First World War it took some five years before the volume of British merchandise exports established anything like a post-war norm. In 1919, the first complete post-war year, these exports were little more than half their 1913 volume; in 1920, as British reconversion approached completion, there was an appreciable advance, but this was drastically checked in the next year as other countries got their industrial systems into operation. Recovery was not long delayed, however, and by 1924 British merchandise exports stood at 80 per cent. of their 1913 level; that marked their "normal" level for the remainder of the decade.

Volume of U.K. Merchandise Exports

1913	100	1922	69
1919	55	1923	77
1920	71	1924	81
1921	50	1925	80

If we take that experience as a reasonable guide to the time required by the world economy to recover from a world war, then we can regard 1950 as the first year which can be expected to be "normal".

There are many reasons for assuming a repetition of the timing of twenty-five years ago. There has been the same destruction of industrial equipment, the same transfer of labour and capital from peace channels to war channels, the same loss of shipping, the same breakdown of the financial machinery of international trade, and the same bankruptcy of great exporting and importing communities. If the world can achieve economic stability and prosperity in five years it will be doing very well.

We can distinguish four main stages in this process of post-war trade recovery. The first is almost over. It is the stage where we find an enormous, unsatisfied demand in almost all countries for goods of almost every type—necessities, luxuries, consumption goods and capital equipment. If Britain had the goods and could ship them she could sell all she needed to pay for all her imports. Unfortunately, the reconversion of British industry from war to peace is not yet completed

and she cannot, therefore, meet more than a fraction of the export orders that are available.

In the second stage, demand for Britain's goods will scarcely have abated, but her industrial reconversion will be complete. If Britain's reconversion is rapid, while that of her competitors is slow, then this stage will be comparatively long and highly profitable. Further, it might well lay the foundations for a prosperous export trade in the next decade. If, on the other hand, Britain's reconversion is slow, while that, for example, of the U.S. is rapid, then the second stage in world recovery will not add appreciably to the prosperity, either immediate or future, of Great Britain. There is one further danger for Britain in this period of reconversion. During these years it will be easy and profitable to sell British goods in the most unlikely places—motor-cars in the U.S., radio sets in Holland, textiles in France. No one in their senses, however, can expect these markets to be permanent, and if the reconversion of British industry is based upon the pretence that they are normal, then the second stage in recovery will be positively harmful as far as her long-term prosperity is concerned.

In the third stage, round about 1948, we shall find that many parts of the world have completed the process of replenishing their stocks and refitting their industries, and in these countries British exporters will find themselves up against keener competition and more discriminating demand. The only countries still outside the process of recovery will be those in the Far East, in the Balkans and Central Europe where war-time destruction and dislocation were greatest. Whether these countries will be able to participate in the world demand for goods, and how far, will still depend largely upon the readiness of the U.S., and to a lesser extent Britain, to finance reconstruction in these areas.

In the fourth and last stage, the main tasks of reconstruction will have been completed throughout the world, and demand assumed its more or less permanent peace-time pattern. The abnormal demand for capital goods will have disappeared, the output of foodstuffs will have caught up with world demand, and Germany and Japan will once more be participating in international trade—probably concentrating on the export of coal, pig-iron, cotton goods, etc. From that point on, what can we regard as Britain's normal imports, and, therefore, her necessary exports target?

In 1938 the value of all the goods imported into the United Kingdom and used there was £858,000,000. To pay for these goods Britain exported £471,000,000 of goods, provided the rest of the world with shipping services and banking services worth between them £145,000,000 net, and for the rest lived largely on "unearned" income.

In round figures Britain's balance of international payments in 1938 was as follows:—

	£ millions		£ millions
Imports of goods . ..	860	Exports of goods . ..	470
		Net exports, shipping services	105
		Net exports, banking, etc., services	40
		Net income from overseas investments	205
			820*

* i.e., in 1938, Britain was short of some £40 millions of exports to pay for her imports.

In projecting these figures forward to 1950 many changes have to be made on both sides of the account.

In 1938 the population of the United Kingdom was 47,500,000; by 1950 it will be in the neighbourhood of 50,000,000, and therefore to obtain the same *per capita* volume of imports she must increase the 1938 import total of £860 million to £900 million.

Since 1938 the prices of imported goods have doubled; if they stabilise at this level then in 1950 Britain will need to spend £1,800 million to obtain the same *per capita* imports as in 1938.

The domestic policy of the present government, however, is such that even without postulating any increase in the average standard of living, we must make allowances for a volume of imports above the 1938 level. In that year there were some 2,000,000 unemployed who, with their dependents, constituted a substantial body of sub-normal consumers. We can anticipate that unemployment on such a scale will not return and that even those who are unemployed in future will not materially reduce their consumption of food and everyday clothing. Simultaneously with this removal of the poorest section of the community the Government's fiscal policy is sharply reducing the net incomes of the richest section. Both these operations tend to increase the purchasing power in the hands of families with £5-£10 per week, and the consumption of these families normally leans heavily on imports—meat, butter, citrus fruits, and hides, raw cotton, and wool for good footwear and clothing.

In short, the implementation of the Government's domestic social policy is clearly dependent upon a volume of imports greater than in 1938, and it is far from extravagant to raise our earlier estimate of necessary imports from £1,800 million to £2,000 million.

How large must be Britain's exports of merchandise to pay for these?

First, what will have happened to her "invisible" exports?

It is reasonable to assume that by 1950 British shipping will be carrying as much as in 1938, and at a price level that has doubled since then, these services should be worth £210 million net.

Similarly, her banking and tourist services, etc., should be back to their 1938 level and earning, at 1950 prices, approximately £80 million net.

Her national unearned income, however, will be considerably reduced. During the war not only were many British-owned overseas investments sold, but her own overseas indebtedness has greatly increased. The result of these two movements is that by 1950 the net yield on her overseas investments available for the purchase of imports will hardly be more than £100 million.

In short, the total net value of her invisible exports will be approximately £390 million—leaving £1,610 million to be paid for by exports of British goods. If we assume that in 1950 the prices of exports will be double their 1938 values, then at 1938 prices, these £1,610 million of exports will be equivalent to £805 million; i.e., Britain must increase the volume of her exports by at least 70 per cent. (£805 million as compared with £470 million).

U.K. Balance of Payments after 1950

	£ millions		£ millions
Imports of goods	2,000	Exports of goods	1,610
		Net exports, shipping services	210
		Net exports, other services ..	80
		Net income, overseas investments	100
			2,000

These figures, it should be remembered, merely postulate the same average standard of living per head in 1950 as in 1938; they do not assume any increase. Again, they assume that the prices of Britain's imports (mainly food and raw materials) will not rise more than the prices of the manufactured goods she is attempting to export. In fact, this is an optimistic assumption. In the markets of the world Britain will be buying raw materials primarily in competition with the rich and expanding U.S A. At the same time she will be selling her manufactures to a world which has become much more industrialised since 1938. In short, the terms of trade in the post-war world may well be less favourable for Britain than they were in 1938, and it would not be unreasonable to aim at an additional 10 per cent. expansion in her exports to allow for the fact that as an exporter of manufactured goods Britain will be operating in a buyers' market, while as an importer of raw materials she will be buying in a sellers' market.

One other adjustment should be made in our figures. So far we have assumed that Britain will be increasing her exports of manufactured goods without any increase in the 1938 volume of imported raw materials, foodstuffs, etc. This is hardly likely. Her industries in 1950 will need more timber, wool, raw cotton, copper, lead, aluminium, iron ore, etc., than in 1938 if they are to double their overseas sales without cutting seriously into home consumption.

When all these factors are taken into consideration it is clear that in the post-war world of normality in international trade Britain must aim as a minimum at a volume of merchandise exports that is 75 per cent. greater than the 1938 figure. A more sensible objective would be to double her pre-war volume of merchandise exports. At the moment exports are averaging £80 million per month. The target is a monthly average of £165 million.

On what terms is this a realistic target? First, can Britain afford to dispose overseas of such a large volume of her products? Secondly, can the world absorb such a large volume of British exports? The former query turns primarily on the size and disposition of Britain's man-power resources.

In 1939 her standard of living was based upon a potential labour force of 19,750,000 men and women (excluding those in private domestic service and excluding males aged 65 and over and females aged 60 and over). Some of this potential, however, was wasted in unemployment and some was diverted to the manning and the maintenance of the Armed Forces. When allowance has been made for these, the effective labour force was in the neighbourhood of 16,500,000 men and women. Of these, 1,250,000 (or 7.6 per cent.) were directly producing goods for the export market, and 15,250,000 were providing goods and services for the home market.

At the peak of war-time man-power mobilisation the potential labour force (as defined above) was raised to 22,300,000 men and women. This was achieved largely by withdrawing hundreds of thousands of women from private domestic work, by persuading millions of married women to take up paid work and by reducing drastically the number of young people at places of higher education.

A large part of these gains has already been lost, and we can reasonably regard all of them as merely war-time transients in industry. Meanwhile, the very low birth-rates of fourteen years ago are already beginning to affect the supply of normal recruits to industry. Again, the raising of the school-leaving age in the near future will reduce the labour force by at least 500,000. In short, it is highly probable that by 1950 Britain's potential labour force will be smaller than it was in 1939—probably 19,000,000 as compared with 19,750,000. Out of this smaller total we must budget for at least 1,750,000 in "unproductive"

activities; by hypothesis we need 2,500,000 workers for the export trade, and the residue—14,750,000—is some half-million short of the number of workers producing goods and services for the home market in 1939.

Manpower Budget

	1939	1950
Potential labour force ..	19,750,000	19,000,000
Forces, Civil Defence, etc. ..	550,000	650,000
Maintenance of Forces .	1,400,000	600,000
Unemployed .. .	1,300,000	500,000
Total "unproductive" ..	3,250,000	1,750,000
Effective labour force .	16,500,000	17,250,000
Direct export industries	1,250,000	2,500,000
Home industries	15,250,000	14,750,000

Thus, in 1950 if (and these are all optimistic assumptions) Britain keeps the numbers in the Armed Forces, Civil Defence, Police, etc. down to 650,000 men and women; if she keeps the unemployment rate down to 3 per cent. of the labour force; and if there is no reduction in the working week, then the process of doubling her exports need involve no more than a 3 per cent. cut in the output of goods and services for the home market. The ordinary processes of technological progress might be sufficient to make good this deficit and also to provide for the additional million and a half consumers there will then be in Great Britain. If, however, the average working week in 1950 is appreciably lower than the 1939 working week (e.g., 40 hours as compared with 47), then, to double exports *and* maintain the 1938 standard of living, the output per man hour of the average worker in 1950 must be roughly 20 per cent. higher than it was in 1939. Thus, the answer to the first question is conditional; Britain can afford to export twice the volume of her pre-war exports of manufactured goods, *if* there is a substantial increase in output per head per hour.

What about our second query? Can the 1950 world absorb twice as great a volume of British exports as it did in 1938?

In 1938 Britain's share in the world's total export trade was about 10 per cent. If, in the post-war economy, world trade settles down at roughly the same volume as in 1938, then we are setting Britain the task of providing 20 per cent. of the world's exports. Such an expanded share would only be possible if there were a tremendous increase in the efficiency of British export industries and after winning a bitter and expensive trade war. But if past experience is any guide such a trade war would certainly end in a contraction of world trade.

Britain's target of a 75 to 100 per cent. increase in its merchandise exports can only be absorbed by the rest of the world if there is a great expansion in world trade. This is not likely to be achieved easily—especially if Russia and her immediate neighbours withdraw from the general scheme of international trade. Britain's self-interest lies in supporting every move which lowers the barriers to international trade, and which raises the efficiency and standard of living of the overseas producer and consumer—whether he is in New York or in Nairobi. Now, more than ever before, Britain's prosperity depends upon unfettered and expanding trade between the nations.

Introduction to

"WORLD TRADE AND BRITISH SHIPPING"

THE general pattern of pre-war world trade was that of a few highly-industrialised areas drawing for food and raw materials on the tropical and semi-tropical parts of the world, and providing them in return with the manufactures they needed. Half of the pre-war trade, in terms of volume, was concentrated on merely twenty products. Three-quarters of the world trade was seaborne and was dependent largely on a few great shipping fleets.

During the last third of the nineteenth century and until the crash of 1929, it seemed natural for this volume of trade to expand steadily and constantly. However, from 1931 until the outbreak of war again, the volume of world trade received many checks and had appreciably shrunk by 1939. Mr. Jaffé gives in considerable detail the background of world shipping and then deals with the question as to what is likely to be the volume of seaborne international trade in the post-war world. This is a question which closely affects the prosperity of Britain. Before the war Britain was both the world's leading trader and the world's leading maritime nation, and in spite of the fact that her share in the carrying trade was steadily declining she was still responsible in 1936 for 40 per cent. of the world's carrying trade. Increasingly she found herself faced with competition based on subsidised shipbuilding and subsidised carrying. In some countries shipping subsidies were justified on prestige grounds; in others on the possible war-time use of a large merchant fleet. Finally, in 1935 Britain herself introduced subsidies. They were, however, not very effective and by the middle 'thirties an appreciable part of Britain's imports and exports were being carried by foreign ships —notably those of Norway, the Netherlands, Germany and Sweden. Whereas in 1913 our shipping services were sufficient to pay for 71 per cent. of our adverse balance of merchandise trade, by 1938 these services were sufficient to meet only 26 per cent. of the deficit.

The immediate problem, however, is not a surplus of shipping; rather it is that of ensuring enough shipping to move the enormous volume of materials and people which are waiting for transportation. Side by side with this there is, of course, a great shipbuilding boom. British shipyards are currently turning out a larger supply of shipping than ever before, and its share in the world construction is as high as 50 per cent. The problem in a few years' time, however, will be how to employ fully the immense fleets which will shortly be available. It will only be possible if there is a return to an open multilateral trading system, and if, as the result of concerted action among the Great Powers, there is a steady increase in living standards in all countries. Even so, the prospects are not bright since we can look forward to considerable economies in the processes of carrying goods and people.

Mr. Jaffé concludes with a special note on United States shipping history and policy. The United States is now the world's biggest shipowner and the world's biggest trader, and a great deal depends, as far as the prosperity of British shipping is concerned, upon what she does with her enormous fleet.

Section 2

WORLD TRADE AND BRITISH SHIPPING

By P. Jaffé

INTERNATIONAL trade is the exchange of goods and services between nations possessing labour, accumulated capital and productive land in various proportions. It is based on some degree of national specialisation, supported by natural advantages. Its exchanges make nations mutually interdependent. Bilateral trade is exchange between two nations; multilateral trade, or free world trade, is a far more intricate network. Before the war trade radiated from the industrial regions; in 1938 the trade of continental Europe accounted for 46 per cent. of world trade, non-continental Europe (mainly the United Kingdom) for 28 per cent., the United States for 23 per cent., and Japan, Korea and Formosa 7 per cent. The rest of the world accounted for only 11 per cent. The growth of multilateral trade was assisted by the high degree of concentration of the trade in certain staple products, such as the exports of South-East Asia. Although Japan exported 78 per cent. and the United States imported 69 per cent. of all silk entering world trade, the trade pattern was rarely so simple. Tropical regions furnished two-thirds of United States imports and took one-fifth of her exports; the United Kingdom took a much smaller proportion of her imports from these areas.

Multilateral trade, which really developed about 1870, was restored after the 1914 war, with the aid of United States' foreign lending. From 1931 discriminatory import controls, including the Ottawa agreements, favoured a replacement by bilateral trade. Capital exports declined; there were debt defaults due to collapses in raw material prices. These collapses gave some countries, such as Britain, the benefit of favourable terms of trade, possibly at the cost of unemployment in the exporting industries; there also arose the problem of reduced access to raw materials for others and emphasised the dangers to which "have not" nations were exposed. The overall demand for primary products fell, the search for substitutes developed and the effective demand for manufactured goods diminished. Tariffs, barter agreements and attempts at economic self-sufficiency contributed to a reduction in the volume of world trade. Nations who found they could not sell their surplus production of food and raw

material, and so could not purchase their requirements, developed secondary industries to supply the home market, to broaden the national economy and to reduce their dependence on world markets outside their control. Between 1928 and 1938 there were considerable changes in world trade (Table I, Appendix), due to the effects of the 1929 crash, the slump and the rearmament recovery which brought trade in 1937 to a high level. Empire preference, totalitarian economic experiments and the "Chinese incident" all caused changes. The period was one of growing international tension and war preparation. The overall shrinkage in world trade was one result. Prices fluctuated considerably; in terms of dollars they fell from 100 in 1928 to 70 in 1935, rose to 80 in 1937 and fell to 75 in 1938. This makes it hard to express world exports in money terms. In composition trade remained fairly stable; the share in the total of raw materials and part-processed goods tended to increase.

TABLE II.—Composition of World Trade.

	1928	1935	1937	1928	1935	1937
IMPORTS	($ millions)			(per cent by value)		
Foodstuffs ..	9,120	5,120	6,430	25·7	24·3	22·8
Materials . ..	12,830	8,100	11,550	36·2	38·5	41 0
Manufct'd goods	13,530	7,820	10,190	38·1	37·2	36·2
Total	35,480	21,040	28,170	100	100	100
EXPORTS						
Foodstuffs ..	8,310	4,480	5,610	25·5	23 5	22·1
Materials... ...	11,390	7,150	9,920	34·9	37 6	39 0
Manufct'd goods	12,910	7,400	9,880	39·6	38·9	38·9
Total	32,610	19,030	25,410	100	100	100

The distances goods move in world trade must be considered. Some three-quarters of the total of world trade is seaborne, and distances have tended to increase. Refrigeration made it possible to send meat across the Equator to Europe from areas of recent settlement in the Southern hemisphere. Northern Rhodesian copper has been substituted for European and North African iron ore for Spanish and Swedish. The United Kingdom imports cane sugar from the West and East Indies, and this is brought much longer distances than was Continental beet sugar.

Oil is often carried longer distances than the solid fuel it is tending to replace. Timber, as easily accessible supplies become exhausted, is often brought so far that freight accounts for half the landed cost.

The shipowner is concerned with the nature of the goods to be carried, the distance and the rate the shipper will pay. The supply of tonnage is rather inelastic to changes in demand, because many

tramp shipowners prefer to run the vessels in the hope of earning something rather than to maintain them in idleness, and because liner owners have to continue their advertised services of regular sailings. Hence shipping earnings tend to fluctuate more sharply than does trade, and tramp freight rates are volatile, reflecting shortages and gluts of available tonnage. Liner receipts reflect changes in demand to a lesser degree. Excess tonnage means incompletely filled ships and numerous ballast voyages; the degree of utilisation of tonnage is reduced.

TABLE III—Index Numbers of World Trade and Shipping.

	1929	1931	1933	1936	1937	1938
League of Nations' quantum of world trade	100	85 5	75 5	86	97	89
Quantum of sea-borne trade (1913 =100)	135	—	104	120	135*	121*
Tonnage of merchant ships in operation...	100	92	87	95	99 5	100
Gross shipping receipts . ..	100	70	48	73	103	85
Index of tramp freight rates .	100	78·5	71 6	84·3	131·5	95·0
Net earnings of U.K shipping	100	62	50	65	100	77

* Estimates.

TABLE IV.—Seaborne Trade, Tonnage Laid Up and Utilisation of Tonnage.

	World seaborne trade (million tons)	Total merchant tonnage (million tons) Owned	Laid up	Tonnage over 2,000 tons gross (million tons)	Tons of trade carried by each ton of shipping over 2,000 tons
1913	250 8	47 0	—	36·0	6 0
1921	161 8	62 0	—	39·3	4·1
1929	297·3	68 0	—	48·8	6 1
1932	207·3	68·4	13·6	42·7	4·9
1933	209·4	66·6	11·4	43·3	4·8
1937	253·9	65·3	1·7	52	4·9
1938	—	66 9	2·5	60*	—
1945	—	77	—	69*	—

* Over 1,000 tons gross.

The cost of shipping and related trade services may itself reduce the total of world trade by making exchanges unprofitable. Before the 1939 war these costs were becoming relatively more burdensome. While trade in manufactured articles carried a burden of about 4 per cent. by value of exports, the cost of carrying prime products rose from 11 per cent. in 1926-29 to 12.5 per cent. in 1936-38, calculated on export values. The table below (V) shows the balance of payments position arising out of various trades between groups and also the costs falling on each trade. The United States was the only group to show

TABLE V.—Changes in Balance of Payments and in Trade Costs 1928 *to* 1938 (*$ millions*)

TRADE BALANCES (imports, less exports between groups*).

Trade of:	Tropics		U.S.A.		New Settlements		Continental Europe		Rest of Europe		Rest of World	
With	1928	1938	1928	1938	1928	1938	1928	1938	1928	1938	1928	1938
Tropics	Dr. 100	10	Dr. 950	Dr. 280	Dr. 130	Dr. 170	Dr. 690	Dr. 530	190	Dr. 270	Dr 260	Dr. 90
U.S.A.	640	70	—	—	Dr. 690	Dr. 420	Dr 890	Dr. 440	Dr 680	Dr. 470	Dr. 30	Dr. 260
New Settlements ...	30	40	600	340	Dr. 20	Dr. 20	Dr. 960	Dr. 330	Dr. 290	Dr 490	Dr. 140	Dr. 50
Continental Europe...	340	90	620	250	710	120	Dr. 290	Dr. 250	Dr. 900	Dr. 580	Dr. 120	Dr. 70
Rest of Europe ...	Dr. 300	60	610	440	170	270	670	390	Dr. 10	Dr. 10	10	90
Rest of World ..	130	Dr. 10	Dr. 130	170	100	Dr. 30	Dr. 30	Dr. 90	Dr. 80	Dr. 140	—	—
Total	**740**	**260**	**750**	**920**	**140**	**Dr. 250**	**Dr. 2,190**	**Dr. 1,250**	**Dr. 1,770**	**Dr. 1,960**	**Dr. 540**	**Dr. 380**
Total exports ...	5,360	3,610	5,160	3,110	3,810	2,440	11,390	8,060	3,750	2,410	3,140	2,290
IMPORTS, LESS SAME EXPORTS† Trade with												
Tropics	100	Dr. 10	170	110	70	110	180	280	10	140	80	80
U.S.A.	140	100	—	—	50	60	150	140	50	20	50	60
New Settlements ...	30	20	40	20	20	20	140	130	30	130	20	40
Continental Europe...	170	160	120	50	110	80	290	250	170	100	100	40
Rest of Europe ..	100	70	20	10	90	90	60	90	10	10	30	20
Rest of World ..	50	20	110	30	20	40	50	120	40	30	—	—
Total‡	**590**	**360**	**460**	**220**	**360**	**400**	**870**	**1,010**	**310**	**430**	**280**	**240**

* Tropics include Central Africa, the tropical agricultural and mineral producing countries of Latin America, Chile and Tropical Asia. New Settlements include South Africa, Canada, Newfoundland, Australasia and non-tropical areas of Latin America. Rest of Europe is mainly United Kingdom.

† Differences represent freight and insurance. As bulk of tonnage was owned by continental or non-continental European countries these two groups were net receivers of both freights included in C.I.F. values of imports and freights earned in cross trades of other groups. In 1938 the differences were inflated by exchange controls causing over-statement of dollar amount of imports.

‡ Ignoring trade within groups, total "differences" were $2,450 million in 1928 and $2,390 million in 1938. Total exports declined from $32,610 million to $21,920 million, and inter-group exports from $23,510 million to $15,440 million.

Owing to "rounding up" of figures to nearest $10 million, figures subject to error ± 10.

an improved credit balance in 1938 on 1928. Continental Europe, by enforced austerity, reduced its adverse balance of payments position arising from trade.

Half the pre-war international trade was concentrated in twenty products, wheat and flour, sugar, butter, coffee, meat, tea and rice, cotton, coal, petroleum and liquid fuels, wool, tobacco, copper and rubber, machinery, iron and steel products, textiles, chemicals, automobiles and paper. The volume of primary products rose during the quarter-century from 1913, while the trade in manufactured goods declined.

TABLE VI.—World Trade Quanta (1913=100).

	World trade in primary products	World trade in Manufactured goods	Imports of manufactured goods				Exports of manufactured goods			
			U.S.A.	Canada	Australia	South Africa	United Kingdom	U.S.A.	Germany	France
1921–25	85.8	76.6	94.3	69.7	70.2	83.0	68.4	108.7	61.2	83.3
1926–29	112.7	104.3	140.0	126.6	102.0	128.0	82.7	175.7	77.5	96.9
1930	119.8	99.7	111.6	122.0	96.0	118.8	68.2	160.2	91.3	87.4
1931–35	107.2	75.5	78.3	68.7	52.7	127.2	50.8	95.0	71.8	65.6
1936–38	116.6	92.1	93.5	93.3	83.6	221.0	62.9	154.8	84.0	46.7
Av. value (millions old $) 1936–38	8,060	5,290	343	222	202	227	986	862	1,048*	316

* Average for 1936/37.

League of Nations, *Industrialization and Foreign Trade*"

Although some part of the decline in world trade may have been due to a breakdown in the financial links which facilitated world trade before 1929, industrialisation changed both the volume and direction of trade. Tropical countries became less dependent on imports from mother countries in Europe. The establishment of secondary industries in the areas of recent settlement curtailed certain European markets. The process of industrialisation has continued during the war, especially in areas cut off from foreign sources of supply; further sharp alterations in the trade pattern may therefore be expected. To some extent the shipowner may find that diversity in demand makes countries call to an increased extent on supplies from distant lands, and a rise in ton miles may result from the carriage of a lower volume of goods. Also a rise in the average value of goods may raise receipts for each ton carried by a substantial amount. Failing active steps to free international multilateral trade, which implies positive stimulation by the United States, a smaller volume of world trade than existed in 1938 is possible. In the last three months of 1945 the level was only half that of 1938 and the pattern was distorted grossly owing to the breakdown of the European economy. The pattern of British exports was relatively little changed.

Before the war Britain was both the leading trader and the leading maritime nation. Her merchant navy was important in the trade of the mother country, in inter-Commonwealth trade and in carrying between non-British countries. The last was of particular importance to owners of the larger tramp ships. In the table below (VII) the decline of British carrying between 1912 and 1936 in every trade is set out. By 1936 she was doing some 40 per cent. of the world's carrying, with a fleet of about 33 per cent. of the total tonnage.

TABLE VII.—Carrying by British Ships. Value of, and Gross Earnings in, Trades.

	Total imports by sea (£ million)			% share of British ships			Proportion of earnings obtained		
INTER COMMONWEALTH	1912	1931	1936	1912	1931	1936	1931	1936	1935*
Empire to United Kingdom	186	241	329	97	95	93.4	38 2	38.8	13 1
United Kingdom to Empire	204	203	240	99	98 5	98.6			3.1
Empire to Empire .. .	69	73	93	83	80 5	78 5	10.5	7.7	9.6
UNITED KINGDOM									
United Kingdom to Foreign	448	295	301	64	65	60 5	29 0	25 2	9 8
Foreign to United Kingdom	559	614	515	66	58 5	51.6			15.2
EMPIRE									
Empire to Foreign .	214	279	333	52	41	38	11 6	13 6	7.9
Foreign to Empire	165	252	285	46	37	36			3.4
Total Commonwealth ..	**1,845**	**1,957**	**2,096**	**69.5**	**63.5**	**61.7**	**89.3**	**85.3**	**62.1**
Foreign to Foreign .	1,587	1,795	1,717	22	13	12	10.7	14 7	24 8
Total .. .	**3,432**	**3,752**	**3,813**	**47.5**	**39.5**	**39.5**	**100**	**100**	**86.9**

* Tramps of over 3,000 tons gross, percentages given of total gross U.K tramp earnings amounting to £24.5 million, of which £3.2 million was earned by small tramps, over half in the coal trade with foreign countries. Tonnage of tramp cargoes was 45,282,000.

Due to events during and after the 1914-18 war, the British lead was lost and her merchantmen had to face increased competition, particularly from the ships of neutrals who had been able to make large war-time profits. Foreign competition was permitted, even in the coasting trade of the United Kingdom, which had been thrown open in 1854. In United Kingdom trades there was no discrimination in favour of British ships, though in general shippers regularly favoured them. The varied success of British shipping is set out below (Tables VIII and VIIIa). Where the British share was low, shortage of suitable tonnage was often a factor.

TABLE VIII.—Percentage Share of British Shipping in United Kingdom Trade.

IMPORTS BY VALUE

	Food*	Raw materials	Manufactured goods	Total imports	Imports from U S.A.
1936 ..	74 3	65.4	59.2	68.0	52 4
1937	75 1	62.1	61.1	67.4	50.2
1938	75.0	64.2	58 9	68.0	53.2

IMPORTS BY WEIGHT, ETC

	Grain†	Meat‡	Animal Food	Sugar	Oil-seeds	Cotton	Wool	Iron	Wood	Petro-leum
1936	66.2	75.1	71.3	78 9	71 3	75 4	95 6	42.8	20 0	53 5
1937	66 7	85.3	75 3	80 7	66 9	65 3	94 4	40 0	18 0	53.1
1938	68.0	85 5	74 9	73.6	67 7	74 3	97 0	39 2	21 4	53 7
Approximate tonnage 1938 (millions)	9.3	1.5	1.9	2.4	1.6	0.6	0.4	6.0	—	—

EXPORTS BY VALUE

	Food	Raw materials	Manufactured goods	Total exports	Exports to U.S A.	Raw material re exports	Total re exports
1936	78.9	56.0	84 0	80 2	62 1	54 9	58.6
1937	76.8	53 2	83 8	79 5	59 9	58 6	53.5
1938	78.8	51 1	84 0	79 4	62.1	59 9	56 3

COAL EXPORTS BY WEIGHT

	Total‖	To France	To Argentina	U K coal exports (Million tons§)	U K coal exports (£ million)
1936	49 0	52 4	74 7	34.5	29.3
1937	46 6	49.4	69 6	40.3	37.7
1938	44 7	44 4	62.7	35.8	37.4

* For the 5 main suppliers percentage shares were Australia 90, New Zealand 100, Canada 88, United States 63, and Argentina 85

† In spite of harvest fluctuations affecting volume drawn from each source, percentage shares of British carrying were fairly stable Canada 82, Argentina 63, and Australia 75.

‡ Almost two-thirds of total drawn from Australia, Argentina and New Zealand, 99 per cent. in British ships

§ In 1938 British ships carried 99 per cent of the 2 46 million tons to Eire and 80 per cent. of the 1 13 million tons to Canada, but only 5 5 per cent. of the 2 66 million tons to Sweden.

‖ Excluding some 11 million tons in bunkers each year. In 1913 exports took 73 4 million tons and bunkers 21 million

TABLE VIIIa.—United Kingdom Trade in 1936—British Ship Percentage Shares by Weight or Volume.

Grain from	Belgium	55.1	Wood from	Esthonia	17·2
	Denmark	0 4		Finland	9·5
	France	55·7		France	16·5
	Netherlands	54·8		Latvia	16·2
	Poland	12·8		Norway	24·9
Iron ore from	Belgium	40·4		Poland	5·7
	France	29·2		Sweden	7·6
	Netherlands	57 3	Meat from	Denmark	8·7
	Norway	1·8		Netherlands	48·2
	Spain	54·4		Poland	34·2
	Sweden	0·6		Sweden	26·9

The British Merchant Navy consisted of a wide variety of ships, of all types and tonnages, designed to play a part in commercial carrying. The fleet was divided between liners and tramps and between ocean-going ships and short-sea traders. Liners were operated in fleets, generally owned by large public companies. Tramps were owned singly or in small numbers by groups, private companies or individuals, who might share a manager, and though fleets existed owned by large

companies this was less usual. Liner tonnage was specially designed for a route and for the passengers and goods to be carried on it. Tramp tonnage was generally less specialised and more adaptable, as it had to be available to carry cargo, generally in bulk, according to the fluctuating requirements of the world's traders and shippers. Liner companies provided regular services and accepted any cargo parcels at fixed tariff rates, based partly on bulk and weight and partly on what the traffic would bear, for carriage between any two points on the route or run. Tramps could be hired to carry any cargo between any two of the world's harbours at rates which varied with the amount of tonnage available at or near the loading point and the amount required there at any one time.

Liner companies maintained a complicated shore organisation to serve the shipper, and frequently owned wharf and warehouse accommodation. The tramp ship did not necessarily use the well-equipped ports on the liner routes and therefore tended to carry its own loading gear. The tramp owner provided no organisation but hired his tonnage, generally on the Baltic Exchange in London. The hire or charter might be for a single voyage or for a period of time ranging from weeks to many years; long-term charters were commonly negotiated for tankers, which might be leased for ten years, a period equivalent to the normal life of a vessel engaged in the carriage of a corrosive substance. The British and American ship disposal schemes of 1946 both provided for charter, in the case of the British scheme for three- or five-year periods with an option to purchase. Liner companies sometimes chartered tramp vessels to provide relief for their regular tonnage when bulky cargoes had to be moved quickly.

The liner fleet included vessels of varied size, ranging in passenger vessels from the giant trans-Atlantic ships to cross-Channel packets. The types included ships almost wholly devoted to the carriage of passengers and mails as well as mixed cargo and passenger vessels, often of considerable size and speed, and cargo liners, many of which were highly-specialised, such as refrigerated vessels for meat or fruit, and tankers for petroleum or molasses. Tramp types included those suitable for heavy cargoes like coal and ores, difficult cargoes like machinery, various dry cargoes, which, like grains, may be pumped out on arrival and which tend to flow like liquids in a seaway, and light, bulky cargoes like timber. The composition of the fleet in 1936 is set out below (Table IX).

The main differences between the vessels engaged in the ocean-going and the short-sea trades was one of size. Although individual capacity was much lower, short-sea vessels carried large tonnages in the year owing to the frequency of their voyages. Some of the larger vessels engaged normally in the home trade, that is, strictly, in overseas

trading with ports in Europe between the Elbe and Brest, were sometimes engaged in foreign trade. The home trade vessels were also engaged in the coastal trade, which provided an essential part of the

TABLE IX.—Composition of United Kingdom Fleet on June 30, 1936.

	Home and Coasting Trades Number	Home and Coasting Trades Gross tonnage	Foreign Trade Number	Foreign Trade Gross tonnage
		(000 tons)		(000 tons)
Tramps* ...	770	535	1,001	4,028
Cargo Liners ...	244	233	853	4,773
Mixed Liners ...	131	176	340	3,137
Passenger Liners	77	113	44	751
Tankers	38	44	308	1,945
Total	1,260	1,101	2,546	14,634

* Tramps were 48·5 per cent. of tonnage in the home and coasting trades and 27·5 per cent. in the foreign trade.

internal communication system of Britain, carrying in liners some £3 million worth of fine goods each year and in tramps large tonnages of coal.

The proportion of tramp tonnage to total tonnage in foreign trade was showing a long-term tendency to decline in the British fleet. This tendency occurred in some foreign fleets, although the world tramp tonnage rose, at a rate well in excess of the long-term growth in demand for its services. The British tramp fleet gradually lost its traditional basis of prosperity, which existed in fact up to 1913, the exchange of outward coal cargoes for inward grain. Some changes due to the decline of coal relative to oil as a cargo and as a propellent of ships are set out below (Tables X and XI). Since the 1939-45 war both Britain and Norway have taken energetic steps to reconstitute their tanker fleets which were main targets for German attacks. In 1946 the United States possessed a surplus of large tankers.

The pre-war tendency to use large ships in the grain trade in order to achieve economies in working was a contributory cause of the fall in numbers of intermediate tramps in the British fleet, which was in 1939 short, for war purposes to a dangerous degree, of vessels of 4-5,000 tons gross.

Even in 1946, when coal exports are insignificant, some 7 million gross tons of British shipping depends on this native fuel. If it remains costly or in uncertain supply, British shipowners will be forced to rely on imported petroleum for firing boilers or driving motor-ships. This will influence the balance of payments' position for a generation, assuming the average life of a ship to be twenty years.

TABLE X.—Decline of Coal Exports, the Rise in Oil and Shipping.

	World coal exports	United Kingdom: Excluding bunkers	United Kingdom: Exports bunkers	Bunkers, United States: Coal	Bunkers, United States: Oil*	Percentage of world tonnage fitted for oil
	(million tons)					
1913 ..	171	73·4	21·0	—	—	—
1929 ..	170	60·3	16·4	3·8	52·2	39
1935 ...	122	38·7	12·5	1·4	30·3	49
1936 ...	120	34·5	11·9	1·4	33·4	50
1937 ..	142	40·4	11·7	1·6	37·7	51
1938 ...	—	35·9	10·5	1·2	36·1	53

* Million barrels.

TABLE XIa.—Tanker Construction, Classified by Ownership.

Period of building	1923-1933 No	1934-1938 No	1934-1938 Gross tons	Under construction 1939 No.	Under construction 1939 Gross tons
Norway . .	134	65	589,000	45	409,000
United Kingdom	63	20	169,000	7	66,000

TABLE XIb.—Tanker Tonnage. (The United Kingdom Share of Vessels of Over 1,000 tons)

	World tonnage: Total	World tonnage: Motor	United Kingdom tonnage
	(000s gross tons)		
1914 ...	1,460	—	727
1929 . ..	6,988	—	2,165
1935	8,896	3,735	2,313
1936 ...	9,195	4,076	2,314
1937 .	9,957	4,757	2,533
1938	10,716	5,307	2,672
1939	11,437	6,016	2,920

TABLE XIc.—World Tanker Fleet (June 30, 1939). Numbers and Gross Tonnage (000s).

	Tankers: Motorships No.	Motorships Tonnage	Steamers No.	Steamers Tonnage	Total No	Total Tonnage	Total fleet, all types: No.	Total fleet, all types: Tonnage
United States	72	361	349	2,440	421	2,801	2,852	11,362
United Kingdom	224	1,749	211	1,171	435	2,920	6,722	17,891
Canada ..	11	87	20	43	31	130	792	1,224
Other Dominions	8	45	24	170	32	215	1,463	1,887
Norway .. .	223	1,759	49	359	272	2,117	1,987	4,834
Netherlands ..	62	400	45	137	107	538	1,523	2,970
Japan	33	308	14	122	47	430	2,337	5,630
Rest of World .	182	1,307	204	979	386	2,286	12,086	22,711
Total	815	6,016	916	5,421	1,731	11,437*	29,763	68,509

* 1945 total: 15,157,000 tons gross, an increase of 33 per cent.

TABLE XId.—World Tanker Fleet (May 1, 1946) Existing and Ordered.

	(000's dead weight tons)	
	Existing	Ordered
United States	13,828	79
British	4,403	470
Scandinavia	2,484	540
Rest of World	2,666	140
Total . ..	23,381	1,229

Operating costs varied considerably among national merchant fleets. British owners, though paying less than American wage rates, paid comparatively high rates (Table XII). They were anxious to ensure fair treatment for seamen, with whom they have had excellent relations for many years, and efficient co-operation through the National Maritime Board. The reason for resisting an extravagant standard wage, related to American rates, which in turn have to be in line with the general U.S.A. level of wages and prices, is that to do so would burden ocean transport dangerously (Table XII*a*). A moderate minimum wage, related to wage rates in maritime nations, would provide a sound base for further improvements and would be less likely to encourage evasion. British standards of manning led to costs in excess of those which fell on Scandinavian owners, who did not have to employ an officer wireless operator, who required special accommodation.

TABLE XII.—Wage Rates a Month Compared with British Basic Rates of July, 1938.*

	Able Seaman Cash	Chief Officer Cash	Third Officer Cash
Great Britain .	£9 12s. 6d	£19 7s. 6d.	£13
	%	%	%
Great Britain ...	100	100	100
Netherlands	103	129	105
Denmark ...	93	122	94
Norway ..	89	104	91
Sweden ...	91	106	95
Belgium	81	78	78
Greece	73	83	—
Germany	61	83	75
Italy	58	75	83
Finland	53	73	65
France	55	54	—
Esthonia	44	57	58
Japan...	35	56	48
Latvia	37	43	43

* Basic monthly rates for seaman in 1945: British $56, U.S.A. $145, Swedish $53 and Greek $44; in June, 1946, the United States rate was increased by 22 cents an hour to 235 per cent of the January 1941 level.

TABLE XIIa.—Comparative Costs of Basic Wages for Liberty Ship Crew.

($ per month)

United States	10,148	Netherlands	3,418
Great Britain	2,735	Belgium	2,389
Norway	2,464	Greece	2,150

U.S. Shipowners' Estimates.

Safety precautions reached a high standard in British ships, as befits the vessels of a country which pioneered load line and classification society regulations. Progress has continued during and since the 1939 war, examples being the Decca Navigator and merchant marine radar equipment. Stowage practice all over the world is largely based on British experience; correct stowage makes for economical working, for an ill-stowed ship can sail 60 per cent. full instead of 90 per cent., for the safe carriage of merchandise and for the safety of the ship. Before the war, losses of British ships due to weather were among the lowest of all fleets, due to proper seamanship and management. In some trades British owners lost carrying because they preserved higher standards of safety than less scrupulous competitors; in other cases British safety regulations were so stringent that competitors could load more heavily without risk. Before the 1930's Scandinavian owners were able to defeat British owners in timber carrying to the extent that by the time the British rules were relaxed the Baltic trade was lost as well as much of other timber trades and certain Scandinavian ships were able to secure the alternating seasonal trades of carriage of citrus fruits from the Mediterranean and of wood pulp, to the discomfiture of British owners.

Owners of British foreign-going tramps were in difficulties before the 1939-45 war. Profits could not be earned sufficient even to meet running costs, let alone provide for depreciation or replacement of fleets. New capital could not be raised. Relative to foreign tonnage numbers of ships declined. Foreign owners had lower capital costs, lower running costs, and were normally subsidised. British tramp owners frequently had to face competition from modern liner tonnage. The lower foreign capital costs were due to varied causes. Swedish iron vessels, built before 1890, continued to operate and required no further depreciation. Building costs in Britain were often higher than abroad and fluctuated widely; in 1920 a 5,500 ton gross tramp steamer might have cost £225,000, in 1933 £63,000, in 1938 £108,000, and in 1946 £160,000. Only modern economical tonnage could be operated with any chance of success by British owners, whose costs were above average. In order to satisfy bankers and to pay for new tonnage they were forced to sell not only obsolete ships, at around break-up values,

but also fifteen- to twenty-year-old ships at cheap rates to low-cost foreign operators. This was one cause of the high proportion of modern tonnage in the British fleet, but it provided a basis for low-cost competition.

TABLE XIII —United Kingdom Steam Vessels sold to Greeks and to Other Foreign Owners.

Period	Sold to Greeks		Sold to others		Total sold to foreigners	
	Number	Average age Years	Number	Average age Years	Number	Average age Years
4 years, 1927-30	136	18.7	679	15.6	815	16.1
7 years, 1931-37	232	17.7	959	19.4	1,191	19.1

A total of 2,006 ships with a gross tonnage of 6,839,465 were sold in the eleven-year period.

Higher wage rates and higher manning standards made British running costs above those of competitors, who often paid less for fuel and for insurance, even when London provided the final cover through reinsurance. British owners had to face subsidised competition, aided by one or more of the devices of building subsidies, operating subsidies, insurance and depreciation credits and tax reliefs. Nearly all nations undertook some form of regular assistance to their merchant fleets. Some used flag discrimination, insisting on shipping goods in their own ships. Germany, Italy and Japan undertook bulk purchasing of goods on Government accounts on a "free on board" basis and obtained the carrying. The Soviet Union undertook exclusive state trading and shipowning, and chartered a declining number of ships from Britain in the 1930's.

Tramp ships had always to meet competition from liners, which in periods of slack trade were prepared to accept "parcels" of bulk commodities at rates which were so low as to be uneconomic for tramps, rather than to sail largely empty. Although the carrying capacity of the liner fleets operating on a particular route tended to be closely related to the tonnage to be moved in both directions it was impossible to withdraw ships because of short-term declines in trade volume, particularly if these occurred mainly on inward or on outward runs. Temporary competition due to maladjustments of this sort was a source of irritation to tramp owners, who found it impossible to interlope on liner business due to the system of conference line rebates which were granted to the shipper who used conference line tonnage only for his business. More serious was the persistent competition from subsidised foreign liners, which were often built for prestige reasons.

Examples were United States liner competition in the cotton-carrying trade of the Orient and in the Caribbean area, and in the Pacific lumber and grain trades and Italian liner competition in the Indian grain trade.

It is fair to say that many British owners were saved from gradual extinction by the trade recovery in 1937, by the Tramp Shipping Assistance Act of 1935, which provided for subsidy payments based on freight earnings and by minimum freight rate schemes. The last covered a number of the main tramp routes and were based on international agreement. There is evidence that they were generally adhered to by the shipowners of signatory nations, which did not include Japan.

Tanker shipowners were able to go a step further for mutual protection. The Schierwater scheme, which embraced all important owners except American, provided for laying up surplus tonnage and for the tonnage operating to recompense owners of laid-up tonnage out of a levy. Without considerable Government supervision such a scheme would have been inoperative for tramps, for unlike tankers these were in permanent excess supply.

All British owners had to face competition based on nationalist policies. The older maritime nations, including the Scandinavians and the Dutch, had built up merchant fleets on a commercial basis. Between the wars the conception of ships and liner fleets as carriers and servants of trade gave place in many cases to quite other considerations. The more innocent nations built larger, faster and more luxurious vessels than the trade justified in order to advertise their greatness and to encourage their trade by showing the flag; the United States was a generous contributor to such self-advertisement. Less innocent nations built large fast ships ready for use as troopers and commerce raiders; Japan's ocean-going fleet was essential for war. Whether the nationalist intention was good or evil the result was a net addition to world tonnage which could only operate with the aid of subsidy and at the expense of older commercial fleets. British attempts to reduce total tonnage and to modernise the remainder were useless as a solution. The "scrap two ships and build one" policy, unless other nations had ceased to increase their fleets, must have led to disaster in peace; its effects on the Merchant Navy as an essential service in war were bad. The abortive British Shipping Assistance Bill of 1939 recognised that if other nations were determined to use merchant ships as instruments of national policy rather than as commercial carriers Britain could no longer afford to stand aside and allow her unsubsidised commercial fleet to shrink in the face of uncommercial competition.

In spite of the efforts of all classes of British shipowners the fleet in

TABLE XIV.—World Tonnage of Vessels of over 100 *Tons Gross.*
*(*000*'s gross tons)*

	Total	United Kingdom	Share %	Total motor Ships	United Kingdom	Share %
June, 1929 ..	68,074	20,046	29.5	6,628	1,922	29.0
June, 1939 ...	69,440	17,891	25.8	16,919	4,597	27.2

Classification of World Tonnage by size (June, 1939) (000's gross tons).

	1000-2000	2000-3000	3000-4000	4000-5000	5000-6000	6000-8000	8000-10000
World ..	5,442	5,141	5,477	7,597	10,488	13,073	7,676
United King	822	627	812	2,013	2,982	3,387	2,355
Norway	537	284	303	567	615	957	1,018
United States	288	597	638	1,213	2,188	3,865	1,418
Japan	376	511	593	632	959	1,141	564

TABLE XV.—Decline of British Shipping in Near Continental Trades
(Vessels of 1,000 *to* 4,000 *tons gross)*

	1913		1938		% decline, 1930 to 1938				
	No	Tonnage	No.	Tonnage	1000-1500	1500-2000	2000-3000	3000-4000	Total
United K. .	2,706	6,908,000	1,006	2,154,000	14.0	32.0	23.7	41.8	13.0
Foreign ..	—	—	—	—	7.2	0.8	11.1	7.5	2.8

1939 was inferior as a national asset to that available in 1914, and the shortage of intermediate and small tramps was particularly noticeable. In peace-time trade, foreign shipping had increased its share. Some measure of the success of other European carriers in supplanting British shipowners is given below. The normal tendency was for United Kingdom trade to go either in British ships or in the ships of the exporting or importing nation; in certain trades outside carriers secured significant proportions. In 1936 such outside carriers carried 14.3 per cent. of imports and 5.4 per cent. of exports, Norway, largely owing to her tankers, headed both lists. In 1938, there were a few trades in which any one outside carrier secured more than 5 per cent. of a direct United Kingdom trade with a foreign country.

TABLE XVI.—Norwegian Shipowners' Incursion Into United Kingdom-Foreign Trades.

Percentages secured of total by value					
Imports from	Netherlands East Indies	5·3	Imports from	U.S.S.R.	6·3
	Netherlands West Indies	32·8		Spain	5·5
	Iran	19.0	Exports to	Denmark	5·1
	U.S.A.	9.8		Portugal	9·5
	Italy	5·8			

Netherlands ships carried 10.6 per cent. of the United Kingdom exports to and 14.3 per cent. of the imports from Germany; 9.2 per cent. of the imports from Belgium, and 6.8 per cent. of the imports

from Iran. Greek ships carried 16.8 per cent. of the imports from Cuba, and 8.2 per cent. of those from the Soviet Union. Swedish ships carried 14 per cent. of imports from Finland and 6.2 per cent. of those from Poland. Danish ships carried 12.9 per cent. of the imports from Finland, 6.4 per cent. of those from Italy, and 13.9 per cent. of those from Poland. Belgian ships carried 11.4 per cent. of imports from Italy and German ships 6.1 per cent. of imports from Poland. The only trades in which the main outside carriers secured a total of 20 per cent. or more were the tanker trade with the Netherlands West Indies, the pulp and timber trade with Finland, the mixed Baltic and food trade of Poland, and the mixed trade with Italy. Much of this trade was lost to Britain through a shortage of small tramps suitable for the short voyages. In the case of Italy subsidies and exchange regulations were added to normal competition.

The importance of shipping to various nations is set out in Table XVII.

TABLE XVII—Pre-War Importance of Shipping in National Economies (1937).

	Active ocean tonnage (million gross)	Receipts per ton £	% of disbursements abroad to gross receipts	% of net receipts to national income	% of labour force employed	% by value net foreign exchange shipping receipts to exports
United King	17.0	12.2	45.2	1.3	0.5	13.4
Norway	4.3	10.3	46.0	11.2	3.1	36.5
Japan	4.3	5.9*	22.9	0.7	0.2	4.7
Germany	3.9	13.6	41.6	0.3	0.1	3.7
United States	3.5	10.8	25.9	0.09	0.06	1.9
Netherlands	2.6	13.4	47.8	2.4	0.6	9.2
France	2.5	9.4	—	—	0.2	4.0
Greece	1.7	7.4	—	—	0.7	24.1
Sweden	1.5	12.0	49.5	1.1	0.7	5.9
Denmark	1.1	13.5	42.9	2.5	0.8	7.1
Other countries	11.1	8.0	—	—	—	—
Total	53.4	10.5	—	—	—	—

* Japanese shipping was partly used to subsidise trading.
Source U S Dept. of Commerce.

The receipts for each ton of shipping vary according to the nature of the fleet, for tramps and tankers normally earn lower rates than liners. Disbursements abroad tend to rise when vessels are employed on the cross trades, and therefore rely less on native docking facilities.

Shipping receipts were of enormous importance before the war to Norway and to the United Kingdom. They represented invisible exports.

Hence the importance to Britain of restoring her fleet in order to secure a full share of carrying trade, to compensate for the loss of overseas investment income and to assist in balancing payments. The war has caused her severe shipping losses, through sinkings and delayed replacement and repairs. Much of the new built tonnage is un-

TABLE XVIII.—United Kingdom Trade Balance and Net Shipping Income.
(£ millions)

	Value of imports	Value of re-exports	Value of exports	Adverse balance	Estimated invisible exports		Percentage of adverse balance covered by shipping
					Total*	Shipping†	
1913	769	110	525	134	339	94	71
1924	1,277	140	801	336	435	140	42
1929	1,221	110	729	382	484	130	34
1937	1,028	75	521	432	386	130	30
1938	920	62	471	387	322	100	26
1945	1,101	50	393	658			

* Net investment income was £200 million in 1938

† Net figure consists of balance of gross earnings of British ships (excluding those between U K ports) from goods and non-resident passengers, less expenses of British ships overseas added to agency profits overseas and expenditure of foreign ships in British ports Fares paid by residents to foreign ships are deducted

specialised large dry cargo tonnage, coal fired and no substitute for the specialised and refrigerated tonnage lost. Excluding the leased ships there is a serious overall decline in all groups except tankers, the demand for which is still unsatisfied.

TABLE XIX.—Ships on the United Kingdom Register (500 Gross Tons and Over) **(3,000 Tons and Over),** *June* 30, 1945

	Passenger liners		Passenger cargo		Cargo liners		Tramps		Tankers	
	No	Gross tons (000)	No.	Gross tons (000)	No.	Gross tons (000)	No.	Gross tons (000)	No	Gross tons (000)
Privately owned .	92	646	220	1,753	629	3,162	671	2,037	266	1,659
	31	565	151	1,637	422	2,903	293	1,561	209	1,585
U K. Govt owned*	14	166	16	127	73	491	336	1,715	162	903
	12	162	12	120	62	472	228	1,517	117	850
Returnable tonnage†. .	5	22	24	243	7	27	502	2,748	31	75
	2	14	23	241	4	23	356	2,490	6	47
Total	111	384	260	2,123	709	3,680	1,509	6,500	459	2,673
	45	741	186	1,998	488	3,398	877	5,568	332	2,482
Total‡ at Dec. 31, 1935	148	1,034	408	2,927	940	4,525	1,534	4,857	315	1,865
Total at June 30, 1929	98	1,219	498	3,769	1,300	6,028	1,333	3,890	334	1,864

* During the spring of 1946, the British Government disposed of 288 ships to owners under the first disposal scheme, 110 of these were large vessels (Groups 1 and 2A)

† 1,997,000 gross tons to U S A and 620,000 to Canada

‡ Including vessels of 100 to 500 tons gross.

During the second world war the bulk of United Nations tonnage, together with Swedish tonnage available, was pooled, and operated by Governments in the common interest. War damage insurance was a matter for Governments. The effects of the war on national fleets is set out below.

The post-war problems were recognised as being twofold. The immediate one was to ensure that during the transition period there was adequate tonnage for essential purposes and that the burden of undertaking this work was shared among all shipowners as equitably

as war-time duties had been. It was recognised as unfair to permit one nation's shipowners to profit from a scarcity of free tonnage and to earn high freights. The more long-term problem, which is by no means solved, was to restore the world's carrying capacity. For the six months up to March 2nd, 1946, the United Maritime Authority ensured that tonnage was allocated for necessary duties and that relief

TABLE XX.—Effects of War on Merchant Fleets.

	Merchant tonnage operated (ships of over 1,000 tons) (000's gross tons) June 30, 1939	June 30, 1945	Leased from U.S A.* June 30, 1945 (000's gross tons)
United States:			
non-military ...	8,672	27,959	—
military	—	8,254	—
British Empire (except Canada) .. .	18,179	14,934	1,997†
Canada ...	655	892	—
Belgium ...	375	241	50
Brazil. . .	420	445	—
Denmark . ..	1,070	748	—
France	2,746	1,113	93
Greece . ..	1,728	697	101
Netherlands . .	2,728	1,576	28
Norway .	4,553	2,813	182
Spain .	776	850	—
Sweden ..	1,365	1,389	—
Germany . ..	3,974	1,068	—
Italy . .	3,246	350	—
Japan ..	5,256‡	1,526	—
Other Countries .	4,865	4,462	646
Total . ..	60,607	69,335	3,097

* Under the Ships Sales Bill, this tonnage can only be acquired permanently by purchase. The present Lease agreements can be determined by the President of the U.S A. on six months' notice.

† Canada had provided a further 620,000 tons.

‡ Of larger vessels, of a total tonnage of 4,315,000, 1,621,000 tons were engaged in overseas service.

work and military movements were not held up. From that date the freeing of merchant fleets from Government control has not been internationally supervised and has continued in stages. Under U.M.A. freight rates were fixed on the basis of charges of the main carrier in each trade; since then rates have been freed from fixing, but owing to the distortion of trade and high costs of operation they remain high. Much British tonnage remains subject to licensing and to direction. For a directed ship the freight rate is based on U.M.A. rates, less a percentage which is generally 10. In passenger liners the Government at

first reserved the right to divert ships and to take the whole capacity for "priority" travellers. This unfortunate necessity, based on a shortage of tonnage, led to two undesirable results. Reconversion of vessels from the austerity war-time state was delayed and the goodwill of the "house lines" was damaged by passengers' vocal criticism of the sub-standard accommodation provided. The war-time losses, added to military and relief needs, have produced a shortage of tonnage. This is particularly so in passenger liners, as troopers, even when released, require lengthy and costly conversions. Some irritation has been caused when free neutral, particularly Swedish, tonnage has secured freights such as phosphates and wood-pulp, which British owners would have liked; broadly, British tonnage has been well employed, about 90 per cent. being used in the Spring of 1946 on Government account. Of American tonnage a proportion has already been under employed, particularly that part controlled by the Services. By the end of 1947 the British fleet should be largely free of restriction and United States' surplus tonnage sterilised.

Steps have been taken in many countries to restore merchant fleets, sometimes by purchase from the United States. Although the later country curtailed shipbuilding output during the autumn of 1945, construction continued at a rate of about 1,000,000 gross tons a year. Even before the end of the war was in sight America began to build ships fitted for post-war trading instead of concentrating solely on the mass production of the relatively slow deep draught 7,500-ton Liberty ships which are widely recognised as being too costly in running and too large for normal tramping operations. In Britain building and repair work for British owners absorbs almost the whole of available capacity and in spite of high costs liner and tanker owners are ordering new tonnage to meet their special needs. On July 31st, 1946, the total gross tonnage under construction was 1,707,000 and a further 2,905,000 tons were under repair.

TABLE XXI.—Merchant Ships Under Construction in United Kingdom.

	Launched				Under construction	
	1929	1936	1937	1938	31.12.45	31.3.46*
Steamers .	403	192	184	147	229	206
Motorships ...	75	120	98	97	145	166

* As at March 31, 1946, of steel ships of over 100 tons each, 206 steamers accounted for 915,577 gross tons and 166 motorships for 749,062 gross tons.

Overseas builders are also well employed; though United States yards face a shortage of work.

TABLE XXII.—Ships Launched and Under Construction.

Building or built in	Under construction (000 gross tons) Total Sept., 1938	Total March, 1946	Motor-ships March, 1946	Annual average of launchings 1933-37 (000 gross tons)	Percentage
United Kingdom	885	1,676	750	574	37 9
British Dominions	39	91	29	10	0·7
United States	—	587	17	73	4 8
Scandinavia	259	376	293	221	14·6
Netherlands	247	142	103	83	5·5
Other countries	*	385†	306†	552*	36·5*
Total	*	3,257†	1,498†	1,513	100

* Some figures not available.
† Of which Germany 232,000 tons (15 3%) and Japan 224,000 tons (14·8%).

France, in addition to purchasing Liberty ships from the United States, plans to expand her fleet above the pre-war total by new construction. Norwegian owners, to whom substantial payments are due by their Government, have placed orders abroad for new tonnage and have already obtained delivery of some Swedish tonnage. Many other nations, including Latin American republics, have plans to build up a merchant fleet, either by purchase or by new construction.

The question which the nations of the world will have to face is how to employ these immense fleets The temporary shortage of tonnage, together with the enormous demand for goods all over the world at a time when European needs of food are at a peak, tend to obscure the issue of the future. The economics of shipping are simple. It cannot create trade, but unless it is in plentiful supply at economic rates it can curtail trade. If it is in excess supply ships will be under employed or laid up and shipowners will be unable to provide security for employees or to purchase new vessels required by changes in trade or by the need to provide efficient carriers.

After the breakdown in multilateral trade of 1929, trade diminished while the world fleet increased. Consequently the fleet was under-employed except in the peak year of 1937. In the future world trade may be restored to the 1929 level. In this event, allowing for the reduction of the Italian ocean-going fleet and the elimination of the Japanese and German fleets, there will be room for the United States fleet and for the restored fleets of the older maritime nations, of which Britain is the most important But sustained trade at such a level seems unlikely; the long-term upward movement, based on the gradual increase of the world's population and wealth, may well be more than

balanced by factors liable to reduce the total. It is at present impossible to gauge the terms of trade that will exist in 1950. The relative values of food and raw materials and of manufactured goods not only determine the British export target, but may affect the whole process of secondary industrialisation abroad, by altering the balance of advantage to be secured by employing labour in industry rather than in primary production. A worldwide slump in commodity prices appears unlikely while cotton and copper prices are rising and there is a famine of wheat and lead, but should it occur the trend towards self-sufficiency, manifest in the 1930's, might develop rapidly and Britain, for example, would find it impossible to sell even the 1938 volume of exports and might find it hard to purchase her needs with the proceeds, even allowing for the price falls. In this case world trade would decline to slump levels. If prices of commodities remain high the urge to secure full employment by diversification of national economy becomes weaker, and although it would continue there would be an increased demand for specialist manufactured goods from primary producers, and the general prosperity should encourage exchanges between industrialised nations, these last were always an important part of world trade Should this be the trend a large fleet would be necessary. A rise in the standard of nutrition, leading to a demand for variety in diet, would also contribute to a demand for shipping services.

United States financial and economic policies will be major factors in determining whether world trade in 1950 will be below the 1938 level or above that of 1937. In so far as the tied loan policy of the Import-Export Bank replaces Bretton Woods principles restriction is probable.

Although every class of shipping is likely to travel several knots faster than before the war, it seems unlikely that this extra speed will enable a substantially smaller tonnage to carry the staple commodities in bulk, particularly as a diversification of demand may lead to hauls being longer than before the war. The tramp fleet should therefore remain at about the pre-war figure. The increasing demand for oil products and the probable rationalisation of world sugar production will both increase the demand for tanker tonnage, which operates without return cargoes. Refining at the oilfields, greater speed and size and faster loading and discharge are factors which will be outweighed. Liner tonnage will have to meet competition from the air for the carriage of passengers, mails, and goods, particularly those of considerable value in relation to weight and bulk. It seems likely that liners will have to be more specialised and faster and that they will be less fully employed than before the war. This, in the absence of subsidised interference, will lead to a gradual curtailment by rationalisation designed to give the shipper and traveller the best services for which he can afford to pay.

The pre-war leadership of European marine carriers was seriously threatened by Japan, and she may be replaced by China. After the war and reconstruction period there is a risk that their supply of shipping services in the cross trades will become difficult, for the countries of recent settlement, especially Canada and the United States, are likely to reserve a share of their trade. The United States may try to apply a maritime Monroe doctrine to her important trade with South America. The policy of the U.S.S.R. is bound up with her general trade policy. The United States will hope to secure Japanese carrying in the Pacific and a proportion of Axis carrying between America and Europe. The older maritime nations may find themselves confined to European trade, a result nearly as disastrous for Britain as it would be catastrophic for Norway, 90 per cent. of whose shipping income came from non-Norwegian trade, much of it outside Europe.

United States Shipping History and Policy

The excuse for a special study of the position of one of the United Nations lies in the fact that the United States controls about half the world merchant tonnage and has supplanted the United Kingdom as the leading shipowner (Tables XXIII and XX). Moreover, the plan is

TABLE XXIII.—Ocean-Going Fleets (Ships of 2,000 Gross Tons and Over.)

June 30	World total	U. Kingdom (millions gross tons)	United States	U. Kingdom (% of total)	United States
1913	34	15	2·8	44	8
1920	43	14·8	12·3	34	29
1939	53	15	8·4	28	16

to use part of this tonnage in world trade as a subsidised commercial fleet and to use the remainder as a reserve against emergencies and as a source of supply for other nations anxious to restore the tonnage of their fleets.

The United States is not without maritime tradition. In 1830 she carried in her own vessels 90 per cent. of her foreign trade, a figure never equalled by Britain. Table XXIV shows the decline from this level up to 1914.

During the war a considerable fleet was built, but in spite of huge subsidy payments it declined between the wars.

The United States was a high cost carrier, due to lack of skill in shipowning and running, and to high wage costs. Her manning, accommodation and safety requirements were above the average, and these in turn increased constructional costs and reduced carrying

TABLE XXIV.—Foreign Trade of United States and U.S. Shipping.

Date	U.S. tonnage (000 tons)	% of foreign trade carried	Date	U S. tonnage (000 tons)	% of foreign trade carried
1830	538	90	1880	1,314	17
1840	763	83	1890	928	13
1850	1,440	72	1900	817	9·3
1860	2,379	66	1910	783	9
1870	1,449	35	1914	1,066	9·7
1921	11,100	51	1932	5,100	35
1927	7,300	40	1933	4,700	33
1929	6,900	40	1937	3,800	25

capacity of tonnage. By 1939 operating a tramp fleet was thought to be unprofitable, and the liner fleet depended on differential subsidies designed to equalise running costs, on countersubsidies designed to combat subsidy payments to foreign competitors, and on building subsidies designed to allow American owners to build modern tonnage in American yards at low costs. Heavy postal subventions had been, in effect, additional operating subsidies, but some of this money went to foreign-built and even to foreign registered tonnage.

In the middle of 1939 the total ocean-going fleet was 8 million tons, of which nearly 2 million were laid up or under repair. Between 1939 and the end of the war the United States lost half a million tons through marine losses and nearly 4 million tons through direct war losses; in this period she added over 31½ million tons of new ships. At the end of the war her fleet totalled 36 million gross tons, excluding some 3 million gross lend-leased to other flags. About another million tons were on order at the end of 1945.

Admiral Land has estimated total requirements of tonnage at nearly 11½ million gross tons, of which 5 million would be used in foreign trade.

TABLE XXV.—United States Foreign Trade Dry-Cargo Allocated to Areas of Employment.*

	1939		Post reconstruction period	
	Number	000's gross tons	Number	000's gross tons
Atlantic	83	529	118	770
Mediterranean . .	29	172	20	136
Caribbean ...	67	353	81	323
African	13	82	21	136
South American. .	43	303	55	453
Trans-Pacific ...	24	200	93	705
Round the World	12	102	7	46
Total	271	1,741	395	2,569

* The U.S. Merchant Fleet consisted of 4,930 ships, of which 3,761 were dry-cargo vessels, on August 5th, 1946.

The new foreign trading fleet would consist of modern tonnage, partly war built and partly new specialised tonnage, including express passenger liners. It seems unlikely that gigantic North Atlantic liners will be included. The carrying capacity of the entire fleet will be sufficient to carry half the trade of the United States and to provide a surplus. Thirty-two routes are included on the 1946 Maritime Commission list as essential.

The United States problem is complex. It is uncertain whether she can man a huge fleet in peace-time, and it is doubtful if she can rely on recruiting foreign seamen. American exporters require cheap and efficient carriage and will be loth to ship American unless it is either cheaper or better. Subsidy payments, without which United States shipbuilding and ship-operating are likely to be impossible, may become politically impracticable. One problem of the United States, now both the greatest importer and exporter in the world, is to import sufficient goods and services to enable other nations to purchase her exports. The necessary dollars can only partly or temporarily be provided by loans, which may total $3,500,000,000 a year, and another $750,000,000 may come from invisible imports, of which the tourist traffic and shipping services are to be specially considered (Table XXVI). If the United States operates a fleet of 5,000,000 gross tons in

TABLE XXVI.—United States Shipping, Insurance and Tourist Traffic Debits.
($ millions)

	1935	1936	1937	1938
Import freights to foreign ships	78	103	186	140
Freights on exports in U.S. ships	Cr. 40	Cr. 40	Cr. 65	Cr. 80
Insurance	15	22	Cr. 3	15
Balance of tourist expenditure:				
Canada	117	139	171	155
Mexico	29	35	40	40
Other countries	146	184	192	162

Source Dept. of Commerce.

foreign trade she will more than replace the German and Japanese fleets. Either there must be a scaling down of fleets or all tonnage is likely to operate at uneconomic levels, through light loading and ballast voyages. This in turn will make sea transport more costly or will make subsidies essential. Poorer maritime nations will be forced to curtail American imports.

The American shipowners are in a parallel financial position to Scandinavian shipowners after the 1914 war, for ships were not purchased by the state, but were able to earn high rates on lease-lend traffic, particularly to the Red Sea, and they were well compensated for losses, particularly of tonnage acquired after the first World War. They have had the first pick of Government tonnage under the Ship Sales Bill of 1946, and can purchase or hire ships at moderate rates.

The immediate prospect is good. Surplus tonnage will be scrapped or laid up in an emergency reserve at Government expense, and the taxpayer will probably have to carry the burden of maintaining the shipbuilding and repairing industries as a part of defence. American owners can hope for temporary operating subsidies to cover high wages and will hope that the American Government will ship American. On the longer term the outlook is less clear and shipowners fear that the nation is not as interested in sea transport as it is in air. The Ship Sales Bill, as a charter of the industry, attracted little interest. Prophecy is difficult, but it is by no means unlikely that Congress will expect American shipowners to fight their own battles at the critical time when subsidies become essential.

If the policy followed is one designed to expand world trade and if the stock piling of ships, like other strategic materials, is continued, then the menace of heavily-subsidised competition for a diminishing volume of world trade is removed from the maritime nations, who will be able to provide economical carriage without fear of being accused of monopolistic malpractices. If, on the other hand, an uneconomic freight war is waged later, backed with a huge surplus of tonnage and unlimited expenditure, then the maritime nations will be driven to countermeasures. Economically they will not be able to purchase American goods, diplomatically the result will be disastrous. In such a world preparation for war would be a main duty of Governments and none could afford to leave shipping to private enterprise. Economically and in the interests of world peace it will not pay the United States to undertake carrying by sea at the expense of her potential customers.

The sixth report of the House Special Committee on Post-War Economic Policy and Planning laid down that an enlarged United States merchant fleet was essential for national security and that operating and building subsidies to permit such essential vessels to operate should be regarded as defence expenditure, but other vessels should not be subsidised. It also laid down that vessels which could not be sold to American or foreign owners, and which were not required for the strategic reserve, should be scrapped and that the shipbuilding industry should be preserved. The administration of any similar policy will affect the fleets of all maritime nations. How big a fleet the world or any single nation needs is now a matter of politics.

Use has been made of British official and of League of Nations statistics, and also of statistics prepared by the Chamber of Shipping of the United Kingdom and permission has kindly been given to publish extracts from these. Further material has been drawn from the Royal Statistical Society papers read by H. Leak, C.B.E., and L. Isserlis, M.A., D.Sc.

APPENDIX—TABLE I.

Direction of Merchandise Trade by Groups of Countries ($ millions)

IMPORTS to	Africa			North America			Latin America			Asia			U S S R.			Cont Europe			Rest of Europe			Oceania			Total			%
from	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1928	1935	1938	1938
Africa	110	80	100	130	70	70	—	—	—	50	60	60	20	—	—	750	680	750	350	230	280	10	—	—	1,420	1,120	1,260	5.1
North America	160	150	**170**	1,510	690	790	1,030	450	660	780	470	630	100	40	90	1,950	740	1,020	1,200	700	950	250	110	170	6,980	3,350	4,480	18 3
Latin America	20	20	**30**	1,210	560	610	340	240	350	10	20	30	40	—	—	1,260	730	830	690	460	480	—	—	—	3,570	2,030	2,330	9 4
Asia	150	160	**180**	1,390	680	660	100	80	70	2,220	1,400	1,520	110	70	60	1,060	650	760	490	420	530	120	110	**130**	5,640	3,570	3,910	15.9
U.S S R	10	10	—	20	30	30	—	—	—	70	30	20	—	—	—	240	210	140	90	100	80	—	—	—	430	380	270	1 1
Con'l Europe	700	600	690	980	490	560	810	430	600	750	470	590	190	70	80	6,920	4,160	4,850	1,900	1,090	1,290	100	50	80	12,350	7,360	8,740	35.6
Rest of Europe	450	350	400	460	280	250	440	220	240	850	410	430	10	20	30	1,060	740	800	400	200	220	390	240	330	4,060	2,460	2,700	11 0
Oceania	20	—	—	90	50	40	—	—	—	110	120	80	20	10	10	340	120	160	400	420	540	50	50	60	1,030	770	890	3 6
World	1,620	1,370	1,570	5,790	2,850	3,010	2,720	1,420	1,920	4,840	2,980	3,360	490	210	270	13,580	8,030	9,310	5,520	3,620	4,370	920	560	770	35,480	21,040	24,580	100

Bold figures denote those trades in which the dollar value in 1938 was not below the 1928 level; owing to the decline in the gold value of the dollar the decline is understated

Source League of Nations "The Network of World Trade".

Introduction to

"COAL"

IN 1913 Britain exported almost 100 million tons of coal and the proceeds accounted for over 10 per cent. of Britain's exports. We provided the rest of the world with over half its coal imports. Today Britain's coal exports are negligible. The quality of the insignificant amounts that are exported is so poor that even in a fuel-starved world it is difficult to find purchasers. At the same time the supplies of coal for our own industries are so precarious that we are being warned that general industrial activity may have to be reduced.

Between these two pictures there lies a generation of industrial strife and technical stagnation. In the twenty-five years between 1913 and the outbreak of the Second World War the efficiency of the British coal industry as measured in output per manshift showed an increase of merely 13 per cent. In other coal-producing countries the increase over the same period was often in the neighbourhood of 50 per cent. Today output per head in British mines is actually lower than it was in 1913. The technical reasons for the backwardness of the British coal industry are no secret. The Reid Report has made clear what has to be done to raise British standards to a level achieved before the war in Germany, Poland, Czechoslovakia, Holland, etc. The renovation of the coal industry, however, necessitates new capital investment of the order of £150 millions, and may take as long as five years before appreciable results begin to show.

The conclusion is almost inescapable that coal, which has for so long been one of the main parts of Britain's export trade, can be written off at least for some time ahead. Such a loss, however, is a pretty serious matter. It means a considerable change in our trade transactions and relations with Scandinavia and France, and it means that many of the countries who were formerly excellent customers—such as the Argentine, Italy, Egypt, and

Eire—will turn elsewhere for their coal, and possibly elsewhere in finding customers for their bulk exports.

Section 3

COAL

By Jean Bird

It would be hard to exaggerate the part played by coal in the creation of modern Britain It provided the motive power of all the great industries of the nineteenth century; it made possible the transport revolution on land and on sea that led to the opening up of the five continents; and, with cotton, it formed the backbone of a British export trade that made Britain the world's biggest consumer of the world's exports of foodstuffs and raw materials.

But coal did more than provide Britain with overseas currencies; it also helped to lower the cost of her imports. The ships that went to bring Britain her bulky imports of grain and cotton, meat and wool, timber and iron ore, had no need to leave in ballast; normally they carried coal as an equally bulky export; full cargoes both ways meant lower costs, lower rates and, therefore, cheaper food and raw materials.

At the beginning of the nineteenth century the total output of Britain's coal industry was 10 million tons, and practically none of this was exported; half-way through the century output had increased fivefold, but exports were still unimportant. It was in the second half of the century that the British coal industry registered its greatest increases; by 1900 annual output was well in excess of 200 million tons; one-quarter of the output was exported, and the industry provided employment for almost 10 per cent. of the men in the country. For the remaining years of peace this dominance continued and seemed unassailable. By 1913 output was in sight of the 300 million tons per annum point, one-third of this was exported, and the number of men in the industry had passed the million mark.

Year	Output million tons	Exports and bunkers million tons	Numbers employed thousands	Exports and bunkers as % of total output	Annual output per man employed tons
1800 ...	10	—	?	—	?
1850 ...	54	3½	183	6	295
1870 ...	110	15	268	14	419
1900 ...	225	56	760	25	296
1913 ...	287	94	1,107	33	260

It was during these forty years before the First World War that the dimensions, the financial administration and the technical layout and structure of modern British coal mining were established.

It is clear from the above table that much of the expansion of these forty years was dependent upon the export trade. Of the growth in output between 1870 and 1913 roughly one-half was in response to overseas demand—a demand based largely upon the late industrialisation of the Continent and the late exploitation of the Continent's own coal mines. In 1913 substantial exports of British coal were going to Italy, France, Germany and the Scandinavian countries; Britain provided the rest of the world with over half its coal imports, and coal accounted for over 10 per cent. of the value of Britain's total visible exports.

By itself this increasing dependence upon the export trade was not necessarily dangerous. But other tendencies in the industry were already pointing towards trouble. The expanding demand for coal meant that production was extended to less and less fertile mines, while easily accessible coal supplies were rapidly exhausted. Output per head, in fact, reached its peak in the 1880's; from then on costs of production rose steadily. At the beginning these costs were simply passed on to the consumer in higher prices; indeed, such was the urgency of the demand for British coal that, until the end of the century, the price of coal probably rose more than the costs of production. In short, as the industry expanded profits per ton actually went up. There was apparently no need to use any of these profits to improve either the organisation or the techniques of British coal-mining.

By the turn of the century, however, it was becoming a little more difficult to pass on increasing costs to the consumer—and especially to the overseas consumer. The latter began to look around for alternative sources of supply, either of coal or of substitute sources of power. Profits per ton began to fall a little. Very few attempts were made to raise the efficiency of the industry and this complacency was apparently justified when boom prices and profits returned in 1913.

The subsequent four years of war did nothing to improve the health of the coal industry. Much of the exports market was lost for the time being, but the home market absorbed all the coal that could be produced by the restricted man-power resources of the mines. With the return of peace, importers on the Continent raised export prices to record levels, and by 1920 exports had recovered to 17 per cent. of total output, and the number of men in the industry was almost 1¼ million.

A series of fortuitous events protected the British coal industry from the full effects of the subsequent general depression. The French mines recovered slowly from war-time damage and destruction; a

series of strikes in the United States' coal industry opened up new markets for British coal; the occupation of the Ruhr by the French led to a serious reduction of German coal production. By 1924 British coal output was almost back to its 1913 peak, and exports absorbed 30 per cent. of total output.

Year	Output million tons	Exports and bunkers million tons	Numbers employed thousands	Exports and bunkers as % of total output	Annual output per man employed tons
1913 ..	287	94	1,107	33	260
1918 ..	228	—	990	—	230
1920 ...	230	39	1,227	17	188
1924 ...	267	80	1,203	30	222

By the end of 1924, however, normal sources of world supply had been restored and Britain's coal exports were immediately affected. From 1925 onwards the British export coal trade, based on a domestic mining industry practically unchanged since the beginning of the century, had to face a combination of secular pressures which were unmanageable without a major reconstruction of British coal-mining.

First, the rate of increase in world consumption of coal failed to show any appreciable increase. Until 1914 consumption had increased by roughly 4 per cent. per annum. In 1927 world consumption had barely recovered its 1913 level, and even in 1929, probably the most prosperous, from the world point of view, of the inter-war years, it was only 9 per cent. greater than in 1913. The continuing high price of coal had induced, on the one hand, the rapid development of alternative sources of power—hydro-electricity and oil; on the other hand, it had driven industrial engineers to seek constantly for more economical methods in the utilisation of coal.

Meanwhile, coal production outside Britain was increasing rapidly. Over four-fifths of Britain's coal exports normally went to the Continent, and from 1925 onwards practically every Continental centre of production began to show substantial increases in total output, and output per head. In some countries, as in Holland, Belgium and France this meant a reduced need for British coal. In others, such as Poland and Germany, it meant increased competition for Britain in the world's remaining markets.

In the Ruhr, after the French had left, the German industrialists devoted themselves to a ruthless concentration of productive effort. Between 1926 and 1938 the number of mines at work was reduced from 237 to 161, and the annual output of the average mine raised from 466,000 tons to 778,000 tons. Even in the mines on which production was concentrated the number of "working places" was drastically

reduced—from 23,178 in 1926 to 3,749 in 1938. Pneumatic picks were substituted almost entirely for hand picks. The results were impressive. In 1925, before concentration started, output per man-shift in the Ruhr was 0.93 tons; by 1936 it had increased 80 per cent. to 1.68 tons.

In Poland the results were just as spectacular. Concentration was carried almost as far, and between 1925 and 1936 output per man-shift was increased from 0.92 tons to 1.81 tons.

These then were the conditions facing the British coal export industry after the world had recovered from the First World War—the world demand for coal was stagnant and even declining; world capacity for production was increasing; many old customers were producing their own coal, and many earlier competitors had almost doubled their technical efficiency. The net result was that while Britain continued to produce about one-fifth of the world's coal, her share in world exports of coal fell from 55 per cent. in 1913 to 37 per cent. in 1938.

Coal Production

Year	World production million tons	British production million tons	British production as % world production
1913	1,237	287	23
1929	1,375	258	19
1933	1,036	207	20
1934	1,126	221	19
1935	1,155	222	19
1936	1,263	228	18
1937	1,339	240	18
1938	1,244	227	18

Coal Exports

Year	World exports (inc. bunkers) million tons	British exports million tons	British exports as % world exports
1913	171	94	55
1929	174	77	44
1933	115	53	46
1934	125	53	42
1935	123	51	42
1936	120	46	39
1937	142	52	37
1938	123	46	37

Thus, while over the twenty-five years after 1913 world trade in coal fell by almost 30 per cent., exports of non-British coal remained unaffected. Over the same period, Germany, in spite of her territorial losses in 1918, increased her share of the world's coal trade from

23 to 31 per cent., and the re-created Poland was, by the end of the inter-war period, providing the world with 10 per cent. of its coal imports.

And yet, although the industry was patently sick, British coal exports in 1936-38 averaged £35,000,000 per annum (equal to 8 per cent. of her visible exports). The main purchasers were:—

	Share in British coal exports, 1936-1938. % of total
Scandinavia	23 6
France	19·8
Germany	9·0
Eire	6 8
Argentine	5·7
Spain and Portugal	4·6
Italy	4·1
Egypt	3 8
Canada	3 2
Rest of world	19 4
	100 0

With the outbreak of the Second World War British coal exports were soon eliminated; and after 1942 production, both total and per man, took a further downward dive. By 1945 total output was only 60 per cent. of the 1913 peak, and output per man was only 95 per cent. of the 1913 figure.

Year	Output		Exports & bunkers million tons	Nos. employed thousands	Exports & bunkers as % total output	Annual output per man employed	
	million tons	Index				Tons	Index
1938	227	100	46	782	20	290	100
1939	231	102	47	766	20	302	104
1940	224	99	27	749	12	299	103
1941	206	91	9	698	4	296	102
1942	204	90	7	709	3½	287	99
1943	194	85	7	708	3½	275	95
1944	184	81	6	710	3	259	89
1945	175	77	7	709	4	247	85

What are the chances that coal will ever again play a major part in Britain's export trade? The position today is admittedly depressing. Importers throughout the world are desperate for British coal, and are offering in return deliveries of raw materials Britain needs urgently for reconstruction and expansion. Their offers so far have produced practically nothing. British coal production is at present insufficient to meet home demands, and the shortage is a constant threat to domestic full production. No one in their senses imagines for a moment

that in the next few years British coal is going to play any measurable part in paying for the country's imports. But what about five or ten years ahead?

There are two obvious prerequisites before coal can amount to anything in Britain's export trade. First, the industry must produce far more coal than it is currently producing, secondly, it must produce it much more efficiently than it is now doing.

The first of these problems is primarily one of man-power. In 1920 the number of persons employed in the coal industry averaged 1,227,000; from that point numbers have declined without any check. Even the special measures taken since 1940 to check departures, stimulate recruitment and raise earnings have failed to halt the decline. Today the number of wage-earners on the colliery books has fallen to 700,000.

Year	Persons employed (thousands)	Year	Persons employed (thousands)
1913	1,107	1941	698
1920	1,227	1942	709
1930	931	1943	708
1935	760	1944	710
1938	782	1945	709
1940	749	1946	700

In the last six months of 1945 there was a net loss of over 15,000 men —the industry gained some 4,870 juvenile recruits, while losing 27,860 men through death, disablement and retirement. There is, under present technical conditions, no possibility of any increase in total output until the recruitment problem has been solved. Since 1938 the number of coalminers has declined by almost 100,000, and the number of young miners (i.e., those under 18 years of age) has fallen by 30,000.

It is almost certain that by now the task of maintaining the industry's man-power cannot be achieved by recruiting school-leavers and juveniles; the preponderance of old men in the industry is showing itself in a rising volume of retirement through old age and chronic sickness. Probably even to maintain the number of men in the industry it is already necessary to recruit adult workers from outside the coal industry And to restore the industry's man-power to the point where production is back to its 1913 volume, and exports are again 90,000,000 tons a year means that hundreds of thousands of adult workers will have to be attracted from and spared from other industries and turned into skilled miners. It seems a pretty hopeless project. Probably the best that can be achieved by an intensive and successful recruiting campaign for the mines is to raise production to the point where home needs are satisfied.

In fact, the prospects for any recovery of Britain's coal export trade lie in a substantial increase in productivity which will simultaneously provide a surplus over and above domestic needs and enable British coal to sell in world markets at prices competitive with other people's coal and with other sources of power.

In the twenty-five years between 1913 and the outbreak of the Second World War the efficiency of the British coal industry—as measured in output per man-shift—showed an increase of merely 13 per cent. In other coal-producing countries the increase over the same period was often in the neighbourhood of 50 per cent.

In 1913 British output per manshift was 1.02 tons. There was some decline during the subsequent war years as the younger miners left the industry to join the Forces. The immediate post-war years failed to bring any immediate recovery in efficiency, and not until 1927 was the 1913 figure passed. From then on, however, a slight improvement was recorded in most years until in 1936 output per manshift had reached 1.18 tons—approximately 16 per cent. better than the 1913 figure. In the remaining two years of peace, however, efficiency began to fall; during the war this decline was accelerated; there has been no recovery since the return of peace, and in 1946 output per manshift was lower than it was in 1913.

	Output per manshift Tons	Index
1913	1.02	100
1925	0·90	89
1930	1 08	106
1935	1·17	115
1940	1·10	108
1945	1·00	98

This is a history peculiar to the British coal industry. In 1913 some of the other coal producers were behind Britain in efficiency, and some were ahead. Irrespective of these differences they all registered, in the subsequent twenty-five years, substantial increases in output per manshift.

Output per Manshift, Statute Tons

Year	U.K.	Belgium	Czecho-slovakia	Ruhr	Upper Silesia	Poland	U S.A.
1913	1·02	0·53	0·95	0·93	1·13	1·12	3·22
1927-8-9	1·06	0·53	1·00	1·18	1·33	1·22	4·20
1930-1-2	1·09	0·58	1·04	1·47	1·54	1·32	4·64
1933-4-5	1·15	0·71	1·22	1·66	1·75	1·66	4·07
1936-7-8	1·16	0·76	1·38	1·60	1·87	1·80	4·23

Output per Manshift, Indices, 1913=100

Year	U.K	Belgium	Czecho-slovakia	Ruhr	Upper Silesia	Poland	U.S.A.
1913 . .	100	100	100	100	100	100	100
1927-8-9 .	104	100	105	127	118	108	130
1930-1-2 .	107	109	110	158	136	117	144
1933-4-5	113	134	128	178	155	148	127
1936-7-8	114	143	145	172	166	160	131

Thus, every major coal producer, except Britain, has raised output per manshift by at least 30 per cent. since 1913, and some show an increase of 70 per cent.; the end result was that whereas in 1913 the output per manshift was roughly the same for most European coal producers, by 1936-7-8 British productivity was only two-thirds that of her major competitors.

This picture of inefficiency in British coal mining does not apply naturally without qualification to all parts of the industry. Thus, in 1944 when output per manshift for the whole industry averaged 1.00 tons, there were some 250 mines (some 15 per cent. of all those in operation) where output per manshift exceeded 1.25 tons; this group employed 16.4 per cent of the wage earners in the industry and accounted for 23.2 per cent. of the industry's output. By and large they were the newer mines and were located in the coalfields of Derbyshire, Nottingham and Leicestershire.

Even with these bright spots, however, it is clear that there is no export future for the British coal industry unless there is a very considerable increase in efficiency and in output. The Reid Report on Coal Mining (issued in 1945) suggests that there are no technical reasons why this advance cannot be achieved. It pointed out that "natural conditions in Britain . . . are comparable with those of the Ruhr and Holland, and, therefore, afford no explanation of the much lower OMS in Britain". This is not the place for a description of the Report's recommendations for improved layout, mechanisation of coal-winning, mechanisation of underground transport, concentration, etc.; presumably these recommendations are to be implemented by the Coal Board. They will necessitate new capital investment of the order of £150,000,000 and may take as long as five years before the average output per manshift of the industry is appreciably increased.

Current output averages roughly 1.00 tons per manshift and with 700,000 men on the colliery books yields 180,000,000 tons of saleable coal per annum. In the three years before the war home consumption of coal averaged 185,000,000 tons per annum. This was at a time when approximately 10 per cent. of Britain's industrial plant and

manpower were idle; if the future is planned on the assumption that unemployment on this scale will not recur, and if allowance is made for the increase in population then home needs for coal can reasonably be put at 200,000,000 tons per annum. If to this we add an export target of 50,000,000 tons per annum (about half the 1913 figure and roughly the same as the average 1936-7-8 figure) then we must think in terms of a total output of 250,000,000 tons. It would be extravagant to estimate the future labour force of the industry at more than 750,000 men, and on this assumption an output target of 250,000,000 tons (with 50,000,000 for exports) can only be achieved if output per manshift is raised from its present level of 1.00 tons to 1.30 tons. Such an increase in efficiency would represent a considerable improvement on any past records of British coal mining, but it would still leave British output per manshift well below the level reached in pre-war Germany and Poland. In short, it is not an impossible target, and we can therefore reasonably expect the reorganisation and re-equipment of British coal mining to produce an export balance that will make a major contribution to Britain's export needs in the next ten years.

Introduction to

"COTTON"

IN the years immediately before the First World War, Lancashire's cotton industry was exporting over 75 per cent. of its output and was responsible for one-quarter of the total value of all British merchandise exports. Well over half these exports went to India, China and Japan, and a further 10 per cent. was sold in Latin America. Britain, in fact, provided the world with practically all its imports of cotton yarns and piece goods. The First World War, by cutting off British supplies, drastically altered these conditions. The cotton industries in many importing countries expanded rapidly. British India, which in 1913 had taken 43 per cent. of our exports, moved rapidly towards self-sufficiency, and Japan captured an increasing proportion of what world trade was still left. Between 1913 and 1937 world trade in cotton goods fell by 38 per cent. Britain's share in this diminished trade fell from 65 to 26 per cent., while Japan's share rose from practically nothing to 39 per cent.

At first these developments affected mainly the bulk and poor quality trade, but by the end of the inter-war period all branches of Britain's cotton trade were depressed and losing ground—except in the protected Dominion markets.

The Second World War has completed the process. While British output fell by over 50 per cent., production in the rest of the world (except Russia and Japan) increased considerably. World trade declined, and of what still remained 75 per cent. was shared by the U.S., India and Brazil. It is unlikely that these three will easily forego their share of the export market, and presumably they will sooner or later be joined by a reconstructed Japan.

At the moment, with Japan out of production, Britain is providing the world with something like 20 per cent. of its cotton piece imports, and these sales constitute only 7 per cent. of our total merchandise exports.

The report of the Cotton Working Party suggests that it is going to be difficult to hold even these figures without considerable re-equipment of Lancashire's mills and factories; and this

re-equipment in its turn calls for capital investment on a scale far beyond what the industry ever attempted in the inter-war years.

Section 4

COTTON

By Jean Bird

In many ways the early history of the British cotton industry is the history of the industrial revolution. Its growth was based upon fundamental technical inventions which harnessed non-human power to machinery and so led to the factories of the modern era. Its imports of raw materials and exports of finished products built the great shipping lines of Liverpool and helped to provide Britain with the world's greatest mercantile fleet. For the greater part of the nineteenth century the men of Manchester and the interests of Lancashire largely shaped the economic and political policy of Britain both at home and overseas.

An accurate measure of the growth and size of the industry can be obtained from the figures of imported raw cotton. In 1800-4 the annual average of retained imports of raw cotton amounted to 56 million pounds weight; by 1850-4 it had multiplied to 707 million pounds; another fifty years and it had doubled to 1,580 million pounds. Even this, however, was far short of the industry's peak; the annual average for the years 1910-13 exceeded 2,000 million pounds.

Throughout the second half of this period of expansion, output per worker, as a result of technical advances, went up even faster. In 1851 the number of workers in the industry was already 570,000; in 1911 the total was no more than 620,000, and they were handling three times as much cotton.

From the beginning the industry was largely concerned with overseas markets and its contribution to Britain's export trade was impressive. By 1835-40 the annual average value of cotton exports amounted to almost half of the total of all British exports. As Britain's overseas trade became more diversified cotton inevitably accounted for a smaller share of the total, but even in 1913, Lancashire was exporting over 75 per cent. of its output and the value of cotton exports was responsible for one-quarter of the whole British export trade. By that time the value of exports of cotton piece-goods was nearly five times that of yarns and thread; most of the latter were fine yarns and their destination was primarily the hosiery and fancy goods trades of Europe. The main destinations of the much more important piece-goods side of the industry were in Asia. The Eastern

trade was in fact the basis of Lancashire's prosperity. In 1913 the quantitative distribution of British exports of piece-goods was as follows:—

	%		%
British India . . .	43 2	U.S. and Canada	2 2
China and Japan	10·9	Australasia	3·0
S.E Asia	7·6	Europe (except Balkans) ..	5·5
Balkans and Near East . .	6·8	N. Africa	5·1
S. and C. America . . .	10·6	Rest of Africa	5·1

In the four years before the First World War Britain provided the world with 65 per cent. of its imports of cotton yarn and piece-goods. The only other great producer was the United States and here, as in the cotton manufacturing countries of Continental Europe, production was mainly concerned with meeting home needs rather than competing with Britain in the export markets. The idea of competition from India and Japan was so remote as to be ludicrous.

With the outbreak of war in 1914, both imports of raw cotton and exports of processed cotton were sharply reduced. Immediately after the war an urgent demand for Lancashire's exports arose especially from the prosperous but cotton-starved East. Prices rocketed and profits reached fantastic heights. An examination of 150 companies shows that the average dividend paid by dividend-paying spinning firms in 1920 was 40 per cent. There was no comparable increase in output and by the end of 1920 the boom had collapsed. In 1921-3 the annual average volume of piece-goods exports was less than 60 per cent. of the 1910-13 figure; there was a slight recovery in 1924, but the pre-war figure was never again reached, and for the remainder of the inter-war years the Lancashire cotton industry was a very sick industry. The impact of the sickness is summarised briefly in the following figures.

Consumption of Raw Cotton.

Year	Million lbs.	Index
1912	2,202	100
1920	1,886	86
1924	1,395	63
1930	1,244	56
1935	1,243	56
1937	1,413	64

To some extent these figures, dealing merely with weight, overstate the decline in the industry, since throughout the period an increasing

proportion of the imported raw material was made up of Egyptian-type* cottons for spinning into finer yarns. These cottons, however, never constituted the greater part of our imports, and, in any case, they themselves barely showed any absolute increase during the inter-war years.

Employment in the industry fell even more precipitously.

No. of Workers in Employment.

Year	Employees	Index
1912	622,000	100
1924	499,000	80
1930	356,000	57
1938	288,000	46

Thus, over a period when the number of workers in the country as a whole rose by 20 per cent., the number able to find work (at pretty poor wages) in Lancashire was cut in two.

The cause of these very considerable declines in production and employment was the contraction of the export trade. Between 1912 and 1938 the total production of cloth fell by almost 5,000 million square yards; over the same period British exports of cotton piece goods fell by 5,500 million square yards, i.e., the expansion of the home market, while steady, was completely unable to compensate for the loss of overseas markets. Whereas, in 1913 cotton exports accounted for 25 per cent. of all British merchandise exports, by 1938 they amounted to little more than 10 per cent. of the total.

Year	Cloth production Million sq. yds.	Exports piece goods Million sq yds.
1912	8,050	6,913
1924	6,046	4,444
1930	3,500	2,472
1938	3,126	1,449

This sensational decline in British exports was the result of a complex of movements in the world's cotton trade. First, between 1913 and 1937 world production (and consumption) of cotton goods increased by 36 per cent. Many countries which earlier had had to import cotton goods to meet their needs were by 1937 able to dispense with imports almost entirely. In India, which was Britain's main market in 1913, production increased fourfold between 1909-13 and 1938, so that whereas in the earlier period home production met only 27 per cent.

* Mainly obtained from Egypt, the Sudan, Peru and the W. Indies.

of the country's needs, by 1937 the output of the Indian mills accounted for over 85 per cent. of the total Indian consumption.

Comparable expansions took place in other countries which had once been profitable British markets—in Japan, Brazil, Mexico and the Argentine, the Balkans and the Near East. In fact, by 1938 there was hardly a country in the world without its own cotton manufacturing industry.

By the mid-1930's almost every important country in the world was meeting its consumption of cotton piece goods very largely out of domestic production. The following figures relate for the most part to the years 1933-34.

Cotton Piece Goods

Country	% of consumption domestically produced
U.S.A....	99·5
India ...	76·5
China ...	87·5
U.S.S.R.	99·9
Japan ...	99·9
Germany	92·9
U.K. ..	98·5
Italy ..	99·2
France...	99·0
Brazil ..	93·5
Netherlands ..	89·5
Canada	74·8
Belgium	92·9
Rumania	88·1
Switzerland	88·8

As a result of these developments in native production it was inevitable that world trade in cotton goods should decline, and the contraction was substantial. Between 1913 and 1937 the volume of international trade in cotton goods fell by 38 per cent. It would not therefore have been surprising if Britain's trade had fallen to the same extent. In fact, however, it fell by 70 per cent., i.e., Britain's share was declining in a declining total. Other exporters had come along to take Britain's place.

The outstanding newcomer was, of course, Japan. In 1913 Japan's share of world trade in cotton piece goods was negligible; by 1929 she enjoyed 19 per cent. of this trade; by 1937-38 her share had grown to 39 per cent. Between 1928-29 and 1937-38 Britain's exports of cloth (in volume) fell by 50 per cent., while Japan's increased by 50 per cent.; the result was that in 1937-38 Japan's share of world trade was 50 per cent. greater than Britain's.

Britain was not the only country to suffer from Japanese competition. The Dutch lost their markets in the Netherlands East Indies. Italy

was beaten in the East Indies, Egypt and South America, and the Americans were beaten in South Africa and the West Indies. But Britain suffered most from Japanese competition, because Britain had most to lose. Of Britain's inter-war losses in cotton exports roughly two-thirds were due to increased production among one-time importers, and one-third was lost to Japan.

The Second World War drastically affected the cotton industry throughout the world. In many ways, so far as Britain was concerned, it aggravated the trends of the preceding twenty years. Production in Britain of cotton piece goods was heavily reduced, while production elsewhere rose rapidly. British exports were well on the way to extinction while the exports of the U.S.A., India and Brazil multiplied. It is true that in the ex-enemy countries, Germany, Italy and Japan, production has for the time being been greatly reduced and exports have practically disappeared; it is unlikely, however, that this "relief" will be permanent.

The expansion in world production between 1937 and 1942 is shown in the following table. While British production was halved, output in the rest of the world rose by 30 per cent.

Cotton Piece Goods. Production in Million sq. yds.

	1937	1942	1942 as % 1937
United Kingdom . .	3,806	1,850	48·5
Rest of world, excluding Russia, the Continent and Japan	17,184	22,150	129·0
Total	20,990	24,000	114·5
U.K. as % of total	18·1	7·7	—

Some Individual Countries. Cotton Piece Goods Production in Million sq. yds.

	1937	1942	1942 as % 1937
U.S.A. . .	9,321	12,000	129
India	5,548	5,800	105
Brazil	900	1,400	156
Mexico	370	500	135
Canada	245	350	143
Argentine	152	300	197
Egypt	77	370	480
Persia	150	240	160

As in earlier years, this increase in world production led to a decrease in world imports, and British manufacturers bore the whole of this decline.

Cotton Piece Goods. Exports in Million sq. yds.

	1937	1942	1942 as % 1937
United Kingdom	1,921	485	25
Rest of world, excluding Russia, the Continent and Japan..	368	1,690	460
Total	2,289	2,175	95
U.K. as % of total of above...	84	22	—
SOME INDIVIDUAL COUNTRIES:			
U S.A.	236	450	—
India	120	940	—
Brazil	7	250	—

Thus, by 1942 U.S. exports (in volume) had practically caught up with Britain's exports. India had gone far ahead of both countries, and Brazil was emerging as one of the world's biggest exporters; the gaps left by Britain and Japan had been largely filled by U.S., India, and Brazil. By the end of the war British exports of cotton piece goods had declined even further, and at least for the time being it looks as if the industry which for a century was the backbone of Britain's export trade, has almost completed its rôle.

Monthly Exports. Cotton Piece Goods.

	Million sq. yds.	Index	% of all exports, value
1912	575	100	25
1924	370	64	21
1930	205	36	13
1935	160	28	12
1938	114	20	10
1945	35	6	9
1946 (1st half)	44	8	7

Before we turn to consider what are the future prospects, if any, of British cotton exports, it is necessary to deal with one other past trend. It has been urged that the position is not nearly as bad as the overall figures suggest; that since 1913 British losses of markets have been almost entirely in the low-quality trade, and that Britain has managed to retain a substantial market for good-quality yarns and cotton piece goods.

To some extent this is true, and the measure of its truth is reflected in the figures of British imports of raw cotton. The two main types of cotton used here are American-type and Egyptian-type; the latter is of longer staple and is used for spinning into finer yarns; it is imported mainly from Egypt, the Sudan, Peru and the West Indies, and the

quantities imported from the two former countries are a reliable measure of the production of "quality" cotton textiles for the *home and the overseas* markets.

British Mill Consumption (Million lbs) of Raw Cotton from:

Year	U.S.A.	Egypt and Sudan	Rest of World*	Total
1912 ..	1,867	269	66	2,202
1924 ..	838	338	219	1,395
1930 ...	737	248	259	1,244
1935 ...	524	306	413	1,243
1937 ...	631	345	437	1,413
1944 ...	302	224	248	774

* The bulk of these supplies came from India, Brazil and the Argentine, and can be roughly ranked in quality with those from the U.S A.

The above figures suggest that between 1912 and 1924 there was in fact an appreciable increase in the absolute size of the quality market—at home and overseas—for British cotton manufactures. But, from then until the outbreak of war there was no increase in the absolute size of this output and certainly no compensation for the decline in the "bulk" trade. Moreover, even in 1937—a comparatively prosperous year for British cotton—mill consumption of Egyptian-type cotton constituted by weight only 24 per cent. of total consumption—and much of this was for the home market. Admittedly this output was proportionately more valuable in money terms, but even when allowance has been made for this it is clear that the quality side of the industry had not by 1937 come to be the basis of the cotton export industry. The most that can be said is that, while British losses in the cheap trade were tremendous, in the quality trade they were comparatively small.

In his separate note in the Report of the Cotton Working Party Professor Jewkes gives the following figures. They suggest that between 1924 and 1938 British exports in the cheapest markets fell by 84 per cent., while in the best markets they fell by 24 per cent.

Classification of export markets according to value per yard, showing percentage decline in each group, 1924-38.

Group of markets with 1924 value per sq. yard.	1938 exports (in sq. yardage) 1924=100
Up to 7¾d.	16
8d.—9¾d.	39
10d.—11¾d.	35
1s. and over	76

Up until 1928 it was true that the most hard-hit section of the British cotton trade was that using the American-type cottons; since then there has been increasing competition in the markets for high-quality fabrics

and for the remaining years of peace every section of the industry was depressed. The relative prosperity of Britain's quality producers was largely due to the fact that they were sheltered from the full impact of depression by the growth in importance of the protected Dominion markets—in 1923 the Dominions bought 19 per cent. of Britain's cotton piece exports; by 1939 this proportion had grown to 31 per cent.

What is the position today? Apart from Japan, world productive capacity of cotton goods is now higher than ever before. This means, firstly, that even more countries are now approaching self-sufficiency as far as cotton goods are concerned, and secondly, that certain countries—India, U.S.A., and Brazil above all—are anxious to cater for what export trade is available. As we saw earlier, the contraction in Japanese and British exports was more than made good by other exporters.

Even if Japan were to be kept out of world cotton markets there would be very little margin available for any expansion in British exports. It is, however, extremely unlikely that she will be kept out. The disarmament of Japan must mean that the two-fold burden of paying for Japanese imports and maintaining urban employment falls almost entirely on the Japanese textile industry. Already the U.S. is providing raw cotton and the dismantled and bombed factories are being restored. When reconstruction is complete the pressure on cotton export markets will be as great as ever it was in the inter-war years.

Under these circumstances, the British cotton industry can be expected to play only an insignificant part in providing the country with a volume of exports almost double the pre-war figure. The Cotton Board's Post-War Committee is certainly under no illusions as to the industry's future dimensions. It has prepared three estimates of the quantity of British cotton piece exports when post-war conditions are stabilised (i.e., from 1950 onwards). They are shown in the following table along with the relevant background figures.

Exports of Cotton Piece Goods.

		(Million sq. yds.)
A.	Actual exports, 1937 ...	1,920
B.	Probable exports, 1946 ...	600
C.	75% increase on 1937-8 exports ...	2,900
*D.	Estimate 1 ...	1,285
*E.	" 2 ...	650
*F.	" 3 ...	2,090

* "Estimate 1 is based more or less on a maintenance of the *status quo* so far as the basis for our overseas trade is concerned. Estimate 2 assumes changes which will prove disadvantageous to our competitive position. Estimate 3 assumes a new state of affairs as favourable as the more optimistic of our consultants could prudently regard as possible."

Thus, according to the Committee the best that Lancashire can hope for is to export slightly more in quantity than she did in the immediate pre-war years; but it is quite possible that future exports will never again rise appreciably above the present (1946) level. Probably the most reasonable expectation is that if Britain's overall export drive succeeds and the total value of merchandise exports reaches approximately £1,600 millions, exports of cotton piece goods may account for about 5 per cent. or roughly £80 millions.

Even this, however, is not a foregone conclusion. It assumes that the policy of drift, which marked Britain's cotton industry in the inter-war years, is abandoned. It is a revealing light on the British cotton industry that in 1938 of the 512 firms engaged in the British textile machinery production, only forty could be called large, and these were for the most part engaged on production for the export market—producing up-to-date machines for the cotton industries of India, Australia, Holland, Belgium, Poland, Germany and Brazil. Britain's own cotton industry was serviced by a host of small accessory makers and jobbing engineers who made a living from the servicing and "improving" of old machinery. Already in 1930 it was estimated that a majority of the machines in Lancashire's spinning mills had been built in the nineteenth century. Since then some have been scrapped but little added. According to the report of the Platt Mission of 1943:

(i) a substantial proportion of the machinery now in place in Britain is not only old in type but beyond its efficient working life;
(ii) for spinning, the Lancashire industry is still equipped predominantly with mule spindles, a type which no other country retains on an appreciable scale and which textile machinery makers in general have ceased to manufacture;
(iii) for weaving, automatic looms in Great Britain cover no more than 5 per cent. of the industry (in the U.S. they cover 95 per cent.).

The Cotton Working Party has estimated that approximately £40,000,000 is needed to re-equip the spinning side of the industry, and £30,000,000 for the weaving side. This is a pretty sizable figure—under present circumstances it is almost certainly more than the resources which the industry itself can provide, and it would certainly constitute a larger order than the British textile machinery industry could handle without jeopardising its export trade. Re-equipment on the scale outlined by the Working Party is likely to be a slow business. And finally, it must be remembered that even with re-equipment, the reduction in costs, as estimated by the Working

Party, is likely to be small. Probably the best that it will achieve will be to restore the volume of British exports of cotton piece goods to something less than their 1938 level. It is unlikely that the losses of 1912 to 1938 will ever be recovered.

Introduction to

"THE TOURIST TRADE"

BEFORE the war Britain was probably a net importer of tourist services; that is, the number of people in this country who went as tourists overseas spent more than was spent by tourists who came to this country. It has long been urged that the two movements can at least be equalised by attracting more tourists here, and that we might even help to pay for some of our imports by stepping up very considerably the tourist trade here.

As far as the world as a whole is concerned, American visitors constitute the basis of the tourist trade. As far as Britain is concerned this situation is modified to some extent by the fact that a great many members of the Overseas Empire prefer on sentimental grounds to spend their holidays here. In the last resort, however, both groups of tourists will be attracted or deterred by the quality of our hotel and travel system. At least the former has long been far from satisfactory when judged by normal hotel standards, either on the Continent or in the United States. Many good reasons have been put forward in explanation of this, but whatever the reason the main impression created by the British tourist trade is that its main concern is to defy rather than attract tourists.

Recently both the Travel Association and the Catering Wages Commission have reported on the state of our tourist trade. Both are agreed that quite apart from any governmental aid that might be provided there is considerable need for improvement "in such matters as amenities, furnishings, service and reception". It is unlikely that much can be achieved in the first two or three years of peace to improve these standards but, as Mr. Pinney points out, it should not be impossible for the British tourist industry to make a contribution to Britain's export drive when things have returned to something like normal.

Section 5

THE TOURIST TRADE

By R. Pinney

THE potentialities of the tourist industry as a means of earning foreign exchange, particularly American dollars for Britain, were well described by Sir Douglas (now Lord) Hacking in the London *Evening Standard* (February 1, 1945). He wrote:

"By extending and accelerating the world's industrialisation, the war will have increased by millions the numbers who will possess the means and leisure to travel, and we most certainly ought to take full advantage of this increased traffic. Travel, moreover, will be promoted for its educational value . . . and . . . creditor countries will not discourage their people from visiting the debtors, since their expenditures on tour will help the debtors to pay their debts, and buy the creditor's goods. Think what this will mean to Britain, with debts on every hand!

"Among other things, its effect will be that the U.S.A., our competitor in almost every other trading activity . . . will almost certainly help this particular 'Invisible' export to prosper. And, unlike so many other export trades, it will not be handicapped by double taxation, or by tariff barriers.

"Then there is the *revolutionary* new factor of air transport, with Britain almost certainly one of the main termini for the principal Atlantic traffic lines.

"It should not be forgotten that more than 50 per cent. of United States' citizens are derived from British stock, while altogether there are well over 80,000,000 people resident overseas whose origin was British. There must be some predisposition among many in this huge *bloc* of the world's population to be interested in Britain, especially at the present time. (Nearly half of all American tourists made their journeys before the war *for family reasons*.) Then there is the advantage that all these people speak our language; so, to some extent, do hundreds of millions of others.

"Before the war tourists spent about £30,000,000 annually in Britain. If we were merely to receive a proportional increase in receipts arising from the general development of the tourist

movement, this income would be likely to be doubled within a very few years. But if we promote the tourist industry as an object of policy, improving our tourist services, smoothing the way for the commercial undertakings engaged in it, and adjusting our affairs so as to favour, rather than defy, the tourist, what couldn't this industry be worth?

"There is very little doubt that it could produce more foreign exchange than any other activity, for, apart from its size, the tourist industry, unlike our manufacturing export trades, does not necessitate any great consequential expenditure on imports."

A well-organised tourist industry would bring many incidental advantages. It would help to revive our merchandise export trade generally, by encouraging business visitors, and by catering for their comfort. Moreover, tourists make many personal purchases while on tour, and often keep on buying similar things obtained from the same source afterwards. It would help to develop shipping and air facilities in the service of our export trades, while it would aid our own shipping and air services in their struggle for economic development. It would give employment to men of the merchant navy. Finally, though this is a facet of tourism outside the purview of the present book, it would help us to develop good international relations, by making better known our way of life.

Before the war about 150,000 overseas British visitors and 400,000 to 500,000 foreigners came to this country annually in normal years. American tourists were very numerous, while there were also thousands of representatives from almost every other major country in the world.

Our paramount need for income on international account, and the fact that the tourist industry could be developed to contribute substantially towards that need, would seem to require that the Government should give their most careful and urgent attention to the industry's development. Other reasons exist which suggest that *the Government should assume a special rôle of responsibility for the industry's promotion.*

A nation's so-called tourist industry is in reality a great range of parts of other industries, and these parts can be classified into two groups, viz., the "non-domestic" group and the "domestic". The first of these consists of shipping and air lines, travel agencies, harbour and terminal air-port authorities, etc.; they provide services for visitors as a significant part of their general business activities. The "domestic" group consists of industries supplying services mainly for the use of the home population, but of which tourists are important minority consumers, e.g., railway and other internal transport services, hotel and other catering services, the domestic services of the travel agencies,

entertainment and personal services (hairdressing, cleaning, etc.), shopping services, etc.

The tourist industry, then, is a heterogeneous affair; moreover, no single component unit of it emerges as a natural leader, for although all stand to enjoy some profit from tourists' expenditure, none receives an especially large share of it, not even undertakings in the "non-domestic" group. Moreover, it is seldom, if ever, that tourists provide the major part of any undertaking's receipts, even of those undertakings in the "non-domestic" group. Shipping lines, for example, usually derive a large part of their income from carrying freight, mail, migrants, etc., and, of passengers carried, the traffic representing the conveyance of residents in other countries to and from the homeland (i.e., tourists) is but one class.

The following dissection of tourists' expenditure within the visited country (which is useful only as a very approximate guide) shows how widely their money is distributed.*

Sample of Tourists' Expenditure (in U.S.A. and Canada).

	Per cent.
Merchandise	26·0
Restaurants and cafés	20·5
Hotels and rooms	17·3
Petrol and other motor requisites	11·5
Theatres and amusements	8·5
Transport	7·0
Confectionery and incidentals	5·9
[illegible] taxis, etc.	3·3
	100·0

Conditions naturally vary country by country, but, generally speaking, the expenditure of tourists is so spread out over a country's industries (which, in any case, exist primarily for other customers), that the promotion of the tourist traffic is the obvious responsibility of no one section in particular.

Yet the efficient development of a national tourist industry requires co-operation between the numerous undertakings providing tourist services, particularly in regard to overseas publicity and representation, and it requires that measures be taken to improve the efficiency of any weak link in the chain of tourist services that might "let down" the rest. In these circumstances, and because the industry can contribute so substantially towards several important objectives of the State, its development clearly calls for the attention of government, a fact that was recognised before the war in one country after another, where

* *Vide Board of Trade Journal*, March 6th, 1930, p. 326.

governments established and financed an official or semi-official tourist bureau, armed with appropriate powers and financial resources.

Austria created her Federal Advisory Council for tourism, under the Chairmanship of the Minister of Commerce; Canada her Canadian Travel Bureau as a Branch of the Department of Railways and Canals; France her "Office National du Tourisme" under the control of the Minister of Public Works; Germany her "Reichszentrale fur Deutsche Verkehrswerbung", founded on the initiative of the Minister of Traffic; in Italy there was "ENIT" consolidated by legislation and later absorbed in a Commissariat for Tourism; in Switzerland the "National Association for the Promotion of Tourist Traffic"; in Japan the "Japan Tourist Bureau" and later Government-controlled "Board of Tourist Industry".

In addition, there were official or semi-official organisations maintaining bureaux in London during the 1930's, representing Albania, Algeria, Australia, the Bahamas, Barbados, Belgium, Bermuda, the Canary Islands, China, Czechoslovakia, Denmark, Eire, Estonia, Egypt, Finland, Greece, Hungary, India, Jugoslavia, Luxembourg, Madeira, Malta, New Zealand, Norway, Persia, Poland, Portugal, Rumania, Scotland, Spain, Southern Rhodesia, the Straits Settlements, Sweden, the Union of South Africa, the United States of America, and the U.S.S.R.

The list of countries engaging in organised tourist promotion was, in fact, little less than a catalogue of all the nations.

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The weak link in the chain of tourist services of many countries proved to be the national hotel system. Though improvement was an indispensable necessity of tourist development, and therefore an interest of government, hotel services, in many countries, were not required mainly for tourists from abroad. They depended for their prosperity mainly on the home population. In some countries the weakness of the hotel system was recognised by government, and the industry was placed under the guidance of *ad hoc* bodies.

The functions of such bodies varied somewhat, but they generally included:—

(i) The promotion of legislative measures favourable to hotel development (including the granting of tax and suchlike concessions);

(ii) The organisation of arrangements to facilitate the provision of capital at low rates of interest;

(iii) The compilation of registers of accommodation of all sorts;

(iv) The classification, or grading of hotels, etc.

(v) The institution of a system of inspection;

(vi) The organisation of a system designed to notify hotel users of the prices they must expect to be charged;
(vii) The promotion of staff training arrangements;
(viii) Architectural research; and
(ix) The publication of authoritative and impartial guide books.

In France there was the Crédit National Hôtelier, founded by statute, extending credit facilities, and helping the industry in every other imaginable way under the guidance of experienced hotel-keepers, architects with special knowledge of hotel requirements, etc.

In Austria income tax and other concessions were allowed to hotel-keepers, and the industry was officially encouraged in a host of other ways.

In Jugoslavia the State officially fostered the hotel industry and put it on a sound economic basis, by granting relief to hotel-keepers on income tax, and municipal, entertainment, and other taxes; import duties were waived on the purchase by hotel-keepers of a whole range of appliances, while the State Mortgage Bank extended them long-term credit facilities for improvements and extensions.

In Italy the Hotel Industry Financing Act of 1932 made special financial provision for the industry, and the State exercised control through a system of licences designed to bring about the technical improvement of hotels.

In Switzerland there was the Swiss Hotel Fiduciary Society; and in many other countries there were similar central bodies acting in the national interest to see that the hotel system, though needed primarily for the home population, was developed to the point where it would be a positive asset to the tourist industry.

In short, it was realised that just as the building of railways or roads, as a necessary preliminary to the opening up of a territory for general development and prosperity often requires State support, so does the establishment of an adequate hotel system, if it is to open up a country to the tourist traffic, and all the concomitant advantages. With efficient hotels, all industries are likely to benefit. National policy should therefore cultivate the hotel industry.

* * * * *

While other governments were developing their national tourist industry by bringing about its co-ordination, and strengthening its hotel system, our own did neither. True, the Department of Overseas Trade was responsible for the formation of the Travel Association of Great Britain in 1929; but although the Association's objects were exemplary, it was no sooner formed than left to fend for itself, being given no adequate status and being starved of funds. And, having assumed no real responsibility for tourist industry development it was

hardly to be expected that Government in Great Britain would take the initiative to improve the hotel system, which was exceptionally backward owing to three main causes.

First, two successive revolutions, one complete, one partial, in modes of passenger transport (coach to rail, and rail to car) had caused demand for hotel services to shift away from localities where many hotels had been built.

Secondly, the practice of holiday-making, mainly in late July, August or early September in Great Britain, confined the business season of many hotels in Great Britain to a too restricted period. During this period large numbers of suitably situated hotels, good or bad, were fairly sure to be full, or nearly so, while there was little that most of the hotel-keepers concerned could do by way of improving their services or premises that would attract enough business at other times to warrant the cost of such improvements.

Thirdly, successive measures of the legislature treated hotels and public houses as though they were units of a single trade. As Lord Bessborough once said, the law regards even the highest class of hotel as "little more than an inn, and little less than a disorderly house".

Efforts from within the industry to secure Government interest and help in the improvement of the situation were unco-ordinated and fruitless, for the hotel trade itself was handicapped by a tendency, arising from deep-seated causes, to divide into three separate and to some extent mutually hostile groups, consisting of the licensed hotels proper, the unlicensed hotels, and brewery-owned hotels.

Apart from the obvious disadvantages that must ensue from such an unsatisfactory state of affairs, there was this very serious result: tens of thousands of travel agents all over the world could obtain little or no commission from hotels in Britain, though good commissions were forthcoming elsewhere; thus it paid them better to guide their clients away from Britain.

The full extent of the loss to the credit side of Britain's balance of payments during the 1920's and 30's owing largely to the *laisser-faire* attitude of successive Governments, and to the too exclusive self-interest of the various hotel groups cannot be assessed, but it must have represented a staggering total. Had we "adjusted our affairs to favour, rather than defy the tourist", it was quite within the bounds of possibility that our direct receipts from the tourist industry would have been equal to or greater than those of France—£80,000,000 in the best years against our £30,000,000—for although we could not offer a Mediterranean climate, or casinos, Britain's range of attractions is vast, from sporting events to business and scientific meetings, from cathedral cities to green landscapes. We have something to interest a great host of people.

Merely for the sake of seeing in their full significance the consequences of neglecting our tourist assets between the wars let us contemplate the figure of £800-£1,000,000,000 as being the gross additional receipts we might have enjoyed over these twenty years had we adopted a thorough-going tourist development policy. Furthermore, there would have been large consequential additions to the revenue of our shipping-lines (whose receipts from tourists are not included in the estimates of the value of our tourist industry, since net receipts from shipping are a comprehensive separate item in our balance of payments) and an almost limitless chain of other incidental advantages for our foreign trade.

But it was not merely the failure of Governments and the faults of the hotel industry that were to blame. The minorities who exercised so stultifying an influence on opportunities for indulgence in the natural quota of fun required, even on Sundays, by normal folk, and the great majority who from insular tradition and ignorance despised the foreigner, were equally culpable. It is a sad story of failure on all hands to put first things first; but high as the cost of our lost opportunities in this field have already been, the greater price for past mistakes has possibly still to be paid.

As already demonstrated, the development of a national tourist industry requires that government should assume special responsibilities. Experience shows that there is no intermediate course between haphazard promotion of tourism by a nation's competitive undertakings, and organised development under the authority of the State; and in a world where State enterprise in this field has become the general rule, the alternative is doomed to failure. Separate commercial undertakings can never again make a conspicuous enough impression in publicity and showmanship alongside the full scale promotion activities of purposeful governments.

Almost every country that has the prospect of a profitable tourist industry now has its established machinery for tourist traffic development, ready to operate, or already in operation. Britain, almost alone, is where she was under the old *laisser-faire régime*. And what prospects are there of early legislation designed to place the matter of tourist promotion on the proper statutory basis? Though no question of nationalisation arises, the required measure would almost certainly be labelled as something of the kind by opponents of State participation in industry, a full quota of whom doubtless occupy leading offices in the main tourist-service undertakings.

The creation of the statutory machinery for tourist promotion is but one prerequisite of success that must occupy parliamentary time. Law reforms in regard to licensing, entertainments, passports, income tax as it affects visitors from abroad, the reception of visitors' motor

cars, etc., are more or less urgently needed. An immense range of preparatory work and of adjustments that should have been carried out years ago, needs to be tackled now, when so much else clamours for attention.

The same is true of tourist services which should be a refinement of those we ourselves are prepared to tolerate. Failure to supply them on a suitable scale before the war means that the deficiency will remain while housing must have the prior claim to labour and materials. The reconstruction and improvement of harbours, railways, roads, hotels—the whole range, will be relegated to second place, or lower, at least in their more luxurious appurtenances, so important in the tourist business. Our resorts, hard hit, in many cases, by the war, will be preoccupied with the primary task of expanding to cater for the immense increase in the home demand for holiday services, and unable, therefore, to devote much attention to the special requirements of tourists.

Clearly, Britain will be able to make only a slow and belated entry into the highly competitive field of the world tourist movement, and in the meantime the travelling public will establish their first post-war habits. Transport services and tourist facilities will grow in proportion to these habits, and develop a high pitch of efficiency and attractiveness.

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Two fundamentals emerge from consideration of the above sketch. First, the tourist industry is of major importance to Britain; secondly only the most thorough-going measures will enable Britain to obtain her "proportional increase in receipts arising from the general development of the tourist movement".

The first point is now generally accepted in official circles. It is not, however, realised by the population generally. Thus, in preparation for the necessary action, organised publicity should be undertaken on the inspiration of the Government. The cordial reception of tourists *must be inculcated as a new characteristic of our people*, not, indeed, solely for economic gain, but for its value in increasing understanding also. Purposeful, sustained campaigning will be needed to achieve this change of heart.

On the second point, the nature of the thorough-going measures to be taken has been suggested by the Travel Association and by the Catering Wages Commission, with a good deal of concurrence.

The Association offers three basic recommendations:

(1) The Government should develop the national tourist industry as an object of policy, and as an item in the post-war export trade drive, announcing its intention to harmonise all other affairs with such a policy as far as it is possible to do so.

(2) The Government should appoint an official national tourist organisation for which it accepts ultimate financial responsibility; the Travel Association offers itself as an organisation ready to hand for this appointment.

(3) The hotel system should be recognised by the Government as rendering a service to the nation; it should be given encouragement and assistance to develop, and offered inducements to adopt international standards.

These recommendations the Association supports with a detailed programme of the action it would itself propose to take, or which should be undertaken by any alternative national tourist organisation. The programme, which deliberately keeps clear of the domestic problem of improving our hotel services, and of the domestic holiday problem generally, includes: the systematic collection and publication of information and statistics; the formulation of new legislation, and of law reforms; measures for co-ordinating the component parts of the tourist industry, especially for publicity and representation abroad (activities which would need to be supplemented by the establishment of overseas offices and bureaux, the issuing of publicity, and the organisation of information, reception and guide services by the national tourist organisation itself).

The Catering Wages Commission, with a wider field of interest, which includes the balancing of the supply and demand of certain domestic holiday services, goes farther. It sees the functions of the Travel Association as part of a comprehensive programme by a statutory corporation which would also deal with the improvement of our hotel and catering services. The Commission's scheme is, in fact, the logical extension of the Association's. Its most recent report on the subject appeared at the beginning of 1946 and it summarised its work on the tourist industry in the following recommendations and suggestions:

1. *A National Travel, Holiday and Catering Board*

   There should be established a National Travel, Holiday and Catering Board for Great Britain to promote the development of the country's travel, holiday and catering services.

5. *Supply of Drink with Meals*

   Provisions should be made so that intoxicating liquor may be supplied with mid-day meals up to 3 p.m. throughout the week and on weekdays in Scotland and Wales.

7. *Cooking*

   More attention should be given to traditional English cooking and food, and generally to the presentation of attractive meals.

9. *Some Matters Concerning Hotels*

There is a general need for improvement in such matters as amenities, furnishings, service and reception. It should be the aim of the British hotel industry rather to develop along the lines suited to this country than to copy what is done, however admirably, in other countries where conditions are different. There should be a greater readiness to make use of the specialist advice which most of the reputable furnishing and equipment firms are willing and able to give or to obtain from the manufacturers when questions of furnishings and equipment are being considered. There is a widely held view that service and reception constitute a weak feature of many British hotels. Adequate training of staffs is the long-term solution of this problem, but managements might improve the position immediately by giving special attention to these matters.

19 *Planning for Tourist Development*

In view of the likelihood of transport and accommodation difficulties continuing for some time, no positive action should be taken immediately to induce overseas visitors to come here solely for the purpose of holiday-making; but it is of the utmost importance that plans should be completed and machinery set up in readiness for the time when we shall want large numbers of visitors from overseas, and when we shall be in a position to receive them. Pending the establishment of the proposed Board, every encouragement should be given to the Travel Association of Great Britain.

20. *Visitors from Dominions and U.S.A.*

As part of a long-term policy, every endeavour should be made, with the assistance of experts, to attract visitors to this country from the Dominions and the United States of America, by means of making known, through suitable publicity, the attractions this country has to offer.

21. *Continental and other Visitors*

The question of attracting Continental and other visitors is one of importance and it should be studied by experts.

22. *The Tourist as a Customer of British Industry*

Industrial and trade associations, together with the Government Departments concerned, should take an active interest in this question and should collaborate on it with the catering industry and the proposed Board.

23. *London as an International Centre for the Fine Arts, Music and the Drama*

The proposed Board might be charged with the responsibility of co-operating with those concerned in order that definite proposals may be framed to carry out a scheme designed to make London an international centre for the fine arts, music and the drama.

24. *The Need for Publicity*

In addition to what may be called "background" publicity designed to "sell" the idea of Britain as a business and holiday centre, there should be more specific publicity carried out by or on behalf of the individual interests concerned, e.g., railways, shipping, air and road transport, etc. Co-operation in carrying out this publicity is important and the proposed Board could assist in this.

For a considerable time now all the information the Government would need before taking the ultimately inescapable decision to develop the tourist industry as an item of State enterprise has been published or has been accessible. A declaration of policy, and an outline of the measures that will be employed to implement it, should no longer be delayed. The time when half-measures and compromises might have been indulged out of deference to the convictions or interests of small groups has long since passed. We need a streamlined plan, the best of its kind, for only this can serve the general interests of the population, *all of whom would be materially affected by inefficiency*. The Minister to be responsible should busy himself in cultivating the support of the leaders of the industries concerned for his plans, pending the time when they can be vigorously put into practice.

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A Note on the American Tourist

It is hardly an exaggeration to say that before the war the dollars of the American visitors and the pounds of the British were the basis of the world tourist trade; in the post-war world this trade will be doubly dependent on American travellers and Britain should be more especially anxious to attract and earn their dollars. The studies of the U.S. Department of Commerce enable us to estimate the dimensions of the prize.

A Departmental report published in 1939 concluded: "At the peak of overseas travel in 1929 payments to foreigners by United States travellers aggregated $437,000,000. . . . In 1937, at the end of a period of increasing travel from the low levels of the depression years . . . (these) payments . . . were $245,000,000. . . . Over the twenty-year

period from 1919 to 1938, expenditure overseas by U.S. residents totalled approximately $5,400,000,000."

From boom to depression and back again there were considerable changes in the volume of this expenditure and in its direction, in the number of travellers and in their social composition.

The end of the First World War saw a rapid recovery in overseas travel by American residents (i.e., citizens plus alien residents). In 1919 there were 232,000 such passengers. Their numbers grew rapidly except for the "recession" year 1924, and by 1930 (it took some months for the October, 1929, crash to be fully appreciated) the total had reached 574,000. From that peak it fell rapidly and deeply; in 1934 only 323,000 U.S. residents went overseas. This time recovery was slow and incomplete; not until 1937 did their number reach 450,000, and this total was barely sustained in 1938. Clearly, the number of U.S. residents travelling overseas is highly dependent upon internal U.S. economic conditions.

At the beginning of the first decade the majority of these travellers were bound for Europe, and until 1930 Europe's share in the total increased steadily. "The factors contributing to this notable increase in travel to Europe were primarily the ebullient prosperity in the United States, the marked broadening of the class of overseas tourists to include, among others, students and teachers in large numbers, the closely-related increase in relatively inexpensive tourist and one-class steamship accommodations, the vigorous promotion of overseas travel by steamship companies and tourist agencies, the restoration and increase in American business interests in Europe, and the growing fashionableness of a trip to Europe."

The year 1930, however, marked the peak in the flow to Europe. From that point on the American traveller, on grounds largely of economy, went increasingly elsewhere.

	No. of U.S. citizens		
	Departing for Europe	For all overseas destinations*	Europe as % of total
1930	279,000	441,000	63
1932	211,000	325,000	65
1934	136,000	244,000	56
1936	170,000	320,000	52
1938	163,000	309,000	53

* All figures in this note exclude travel to Canada and Mexico.

Thus, in the depressed 'thirties, the American citizen's preference for European travel declined both absolutely and relatively. In 1938 departures for overseas destinations *other* than Europe were only 10 per

cent. below their 1930 level, while over the same period departures for Europe fell by over 40 per cent. In the later 'thirties just over half those leaving for Europe visited the United Kingdom, and their average length of stay was three weeks.

It is probable that the depression merely hastened a general trend in U.S. travel. From 1919 onwards travel to the West Indies and Central America increased rapidly.

	Annual average of U S. citizens departing for W. Indies and S. America (by sea)
1919-1922 ...	73,300
1923-1926 ...	95,700
1927-1930 ...	128,700
1931-1934 ...	92,700
1935-1938 ...	116,700

If the departures by air are included it is almost certain that by the late 'thirties U.S. visits to the West Indies and Central America had reached an all-time record, and were well on the way to equalling the number of U.S. tourists leaving for Europe.

Just as the depression sharply affected the total number of U.S. citizens travelling, so did it affect their expenditures.

Period	Average annual expenditure by U.S. citizens visiting overseas	Expenditure per traveller
1919-1922	$175,000,000	815
1923-1926	274,000,000	915
1927-1930	371,000,000	900
1931-1934	170,000,000	580
1935-1938	183,000,000	585

As we have already noted, over the inter-war years there was a steady shift in relative preference by U.S. travellers away from Europe and towards the West Indies and Central America, i.e., out of a declining total, a declining proportion was spent on travel to Europe. In the last three pre-war years 66 per cent. of the total was spent in Europe and 20 per cent. in the West Indies and Central America.

The proportion of U.S. tourists bound for Europe who visited the United Kingdom was indicated by a questionnaire enquiry for the four years 1935-38. It appears that over half those European-bound visited this country and spent on the average three weeks in this country. The principal other destinations were France, Germany, Italy and Switzerland.

According to the report of the Department of Commerce, in the four years 1935-38, U.S. citizens and alien residents spent an average

	Annual average 1935-1938	Average number of days spent
No. of U.S. citizens visiting Europe	171,500	—
No. visiting England, Wales or N. Ireland	92,500	21
Scotland . ..	23,000	16
France	84,000	13
Germany .. .	68,500	29
Italy	42,000	22
Switzerland ..	40,000	9

of $21,000,000 per annum in the United Kingdom; i.e., roughly 10 per cent. of the total expenditure of all U.S. overseas tourists.

This review of the inter-war years suggests the following conclusions on the U.S. traveller:

(1) Changes in the total amount spent on overseas travel are more violent than changes in the U.S. national income.

(2) The maximum number of U.S. citizens and resident aliens going overseas in any one year was less than 600,000, and the minimum just over 300,000.

(3) A majority of these travellers always went to Europe, but over the twenty years the proportion going to Europe fell while the proportion choosing the West Indies rose.

(4) Even so, in the late 'thirties the number of U.S. citizens visiting the United Kingdom was round about 100,000 per annum, and they spent between them roughly $20,000,000 in this country.

What can we expect when civilian passenger transportation has returned to something like normal? The U.S. monetary national income will be approximately twice its 1938 size; we can therefore expect American overseas travel expenditure to be almost $1,000,000,000 per annum, and the number of U.S. tourists at least 700,000.

Pre-war experience suggests that of each of these totals there is an irreducible margin that will travel and spend in Britain; apparently we can rely upon an annual inflow of 100,000 visitors from the States, and between them in the post-war world they will spend roughly $50,000,000 in this country. But apart from these "diehards" what are our chances of attracting the other 85 per cent. of the American overseas travellers with their hundreds of millions of dollars? The prospects are not very bright. In 1938 British achievements in commercial hospitality and comfort were notoriously low when judged by the tourist trade almost everywhere else. After six years of war those achievements have further deteriorated and the material attractions of the West Indies have by comparison become even more compelling.

Perhaps the most we can aim at for the time being is to attract a sufficient number of additional Americans to compensate for the inevitable loss of visitors to Britain from Germany, Italy, France, etc. But even to achieve this there must be something like a revolution in the services and publicity provided by the British tourist trade.

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Introduction to

"DESIGN IN EXPORTS"

As Mr. Hollowood points out, a great many claims are now being made for industrial design as a panacea for Britain's ailing export trade. Some of this is exaggeration, but it is still true that good design can help the export trades appreciably. In the past British exporters of consumer goods have often been content with poor design, but this can be regarded as one more symptom of the general anæmic condition of British industry. Throughout the inter-war years it became increasingly clear that in many fields the future of British exports lay in the production of high-quality goods, but too often our manufacturers straddled on this issue. They turned out products which were not good enough for the high-quality markets and not cheap enough for the mass markets. The failure in the former field was largely due to the poverty of taste in the home market; to the shortage of trained designers; to a shortage in some cases of capital; to inadequate consumer research, and to the general instability of trade. A large part of the responsibility, however, must lie on the first of these and Mr. Hollowood asks very pertinently why British taste, and consequently industrial design, has in the past been so poor.

For the most part it is because of the fallaciously conceived antagonism between machine-made goods and hand-made goods. The former, at least in this country, came to be regarded as something inferior and shameful, and many manufacturers distorted their productive processes so as to turn out something which imitated the hand-made product.

Standards of craftsmanship were equally poisoned by the fallacy, and concentrated on producing goods which set out consciously to show up the limitations of the machine-made product.

The problem of design is a three-fold one, economic, technical and æsthetic. Because of this it is likely to be solved most easily, not by the contribution of the technician working alone, or the designer working alone, but by design units which call on all to

make their contribution. There is still a living tradition of British design and, with this as their base, British consumer goods, having added the virtues of functional efficiency and taken account of foreign taste, can do much better, both in the quality market and the mass market.

Chapter VII—Section I

DESIGN IN EXPORTS

By A. Bernard Hollowood

NOT long ago a rumour (repeat *rumour*) went the rounds that we British were exporting right-hand drive cars to the U.S.A. in blissful or wilful ignorance of the American rule of the road. If this story is set against the one about a cargo of left boots delivered to our frost-bitten troops in the Crimea ninety years ago, the conclusion must be that the British are incorrigible. Or is it that such rumours are traditional indications that muddle and efficiency in high places have at last become common knowledge, that the criticism of the knowledgeable few has become a howl of derision from the credulous many?

We have obviously reached this latter stage in our attitude to industrial design. For many years the Reads, Picks and Gloags have been preaching to thin audiences; and now, quite suddenly, or so it seems, industrial design and its fellow market research have become clichés in the nation's commercial vocabulary. A Government body is set up to promote good industrial design, and the manufacturers sit up and take notice—or umbrage.

Industrial design is booming after years of neglect and all the usual boom phenomena are in evidence from the inflated prospectus to the bogus promoter. Design has become a key-factor of industrial efficiency; yet because it has something to do with art (with a small "a" and even without serifs) and because it cannot easily be evaluated commercially with any precision, it is a highly profitable field for the amateur and crank. There are so-called practitioners who will tell you that design is the one great weakness of British industry, that a few pounds spent on it now will return a thousandfold in prodigious sales increases. This is rubbish, of course. Defective design is only another manifestation of the anæmia which has for so long cramped the enterprise of many British industries. Good design alone will never restore Britain's industrial fortunes, but it can make a powerful contribution to that end.

It is seldom possible to nominate poor design as the chief culprit in a tale of dwindling trade. Manufacturers bustle with indignation when it is suggested that they have practised false economy in their design policy. They show you the products of their foreign

competitors and more often than not the British product is still vastly superior. They tell you how much they have paid for new designs, and it sounds a lot. And, of course, they recite a catalogue of troubles—trade barriers, sweated competitive labour, excessive distributive margins, foreign subsidies and the rest—which *in toto* make a plea for improved design sound like a plea for clean collars in a concentration camp.

Universal Mediocrity

But even if the manufacturer's defence is sound he can have no ground for complacency. If his designs are preferred it is often because they are no more than the best of a mediocre bunch. The drive to improve British industrial design is inspired not so much by a poor view of our own achievements but by a genuine fear that overseas competitors will soon equal or surpass these achievements.

Signs were not wanting before the war that competing nations were already keenly aware of their new opportunities. Where they had succeeded hitherto in capturing British trade they had usually done so by price cutting—sometimes as a result of productive efficiency, sometimes with the backing of state subsidies. And their gains had been limited to the cheaper end of the trade. But now these countries were casting envious eyes upon the more profitable medium- and high-quality markets. So countries which had industrialised themselves at one bound from peasant crafts to neotechnic mass production—countries like Japan and Czechoslovakia—now tried to improve the design quality of their wares. In Japan, for example, the industrial federations cartellised their export trade and prescribed minimum standards of workmanship, performance and packaging for all goods sent overseas. Since they still stood outside the main stream of Western culture the Japanese were usually unable to evolve new designs æsthetically equal to the products of the West, but they got over the difficulty by plagiarising on the grand scale. At the same time they improved the functional and qualitative aspects of their wares very considerably. By 1939 preparations for an invasion of what was left of Britain's export markets in consumer goods were going ahead rapidly.

The threat need not have worried British manufacturers unduly, for they had a long start over these new competitors and were better equipped by tradition and training to engage in the "quality" end of export trade. Sacrifice of the bulk trade markets had not been without its effect on the structure of British industry. The pattern of trade—a wide variety of markets and a multiplicity of products—was reflected in the small-scale and versatility of the representative manufacturing business. (Remember, please, we are dealing with the *consumer* goods

industries and cannot avoid generalisation.) In theory, at least, this arrangement was sound. If the perfection and widespread adoption of mass production plant could destroy the advantage hitherto held by old manufacturing countries by reason of the greater skill and enterprise of their workers, then it would seem sensible for them to abandon the trading province of mass production to the new-comers and concentrate on limited editions of high-grade wares for the "expensive" markets.

Quantity Production Economies

But theory and practice were impossible to reconcile. It is true that in industries like boots and shoes, hosiery, cotton, wool, domestic glassware, pottery, furniture and cutlery the business unit in Britain is smaller than the newer units abroad—and much less highly-mechanised. It is also true that British manufacturers aim at a far greater variety in their products than their competitors. But they have not dared to put all their eggs in one basket: their answer to the threat of mass production has been an uneasy compromise, one which can give them nothing better than the worst of both worlds.

In other words, they have tended to dabble in quantity-production without achieving the production economies which alone make it worth-while, and have dabbled in design without giving their products the qualities necessary to justify higher costs and prices. But before this criticism is carried a stage farther let it be repeated that the responsibility for this dismal state of affairs does not lie only with the manufacturers. To a marked degree they have been the victims of circumstances quite outside their control—the poverty of design appreciation in the home market, shortage of trained and reliable designers, shortage of capital, the inadequacy of research and marketing services, and the general instability of pre-war trade.

The Missing Factor

Mr. John Gloag has called the industrial designer "the missing technician" of British industry; industrial design can be called the missing factor of production. It may be that industrial design in Britain is no more than a reflection of the general standard of taste and intelligence; that poor design like poor music, poor broadcasting and poor literature, is merely an outward and physical sign of an inward and spiritual disgrace. If so, there is a very strong argument for using improved design as a lever to raise the other "arts" to standards of respectability. For industrial design is basic; it conditions all our mental and physical activities. You cannot get blood out of a stone, nor healthy workers out of slaves; and the arts cannot flourish in a soil soured by poor industrial design. Industrial design is art at the level

of the street and the kitchen, an art with which we are in contact almost continuously. And the finer arts are all spun out of this raw material. There is then real justifications for the Government's paternalism and the creation of the Council of Industrial Design.

The most important root cause of defective design is a false assimilation of the principles of the new machine technology. Machine-made goods have for too long been regarded as substitutes for hand-made goods, and there are still manufacturers and designers who strive to make their bulk-produced articles imitate the bespoke products of the craftsman. This false view sprang from the nineteenth-century judgment of manufacturing as something essentially dirty and "commercial"—something to be confined to the coalfield towns and to those people unfitted to pursue the professions and the arts. Industrial design was thus left to its own devices and these it copied from the crafts. Art and industry became estranged, divorced. Art went off into a William Morris dance for her rich patrons: industry became a robot in a borrowed crinoline.

Even craftsmanship lost heavily through this sad separation—it lost its eighteenth-century integrity of purpose and set itself to do no more than reveal the limitations of machine reproduction. Thus the craftsmen produced ever wilder and more odious, over-decorated *objets d'art* and industry struggled to follow suit, to keep pace with these excesses.

Since the export trade was nourished very largely by the overflow of goods from the home market it had to put up with what it got. Britain was a pioneer among trading countries and has suffered (and is still suffering) all the penalties that pioneering entails. The "cheap tin trays" tradition in exports has survived and industrialists can still be found who hold the view that anything British is good enough for the foreigner. Most American, German and Japanese industries were established late enough to profit by Britain's long experience. But if they saw and identified the shortcomings of British design they do not seem to have turned these lessons to practical advantage. It is true that in America with its immense internal market the machine came to be respected for its own particular qualities of performance, precision and rapid repetition, but Americans have been no more successful on the whole than the British in raising the design standard of machine-made goods and their design policy at the moment seems to involve a sacrifice of all other values to the Moloch of mass output. The nearest approach to a rational solution of the machine-art problem was achieved by the Bauhaus school in Germany, but work had not progressed very far before the school was swept away by the Nazis, and replaced by the Hitler academy. It is significant that much of the best industrial design before the war came from countries like Switzerland,

Sweden and Denmark, where relatively small batch-production methods were the rule.

Industrial design is a comprehensive term. The design of an article means its suitability for efficient reproduction by machine processes, (or by a combination of machine processes and manual dexterity), its effectiveness as a solution to the functional problem which is its chief *raison d'être*, and its ability to satisfy and perhaps delight the senses of the customer. Thus a design can be judged from three angles—economic, technical and æsthetic—and a sound design should achieve maximum points in each category. The production of a good design is therefore a most difficult assignment for any one individual; certainly the ordinary manufacturer, engineer or artist is insufficiently equipped to undertake such a task, and a tripartite committee usually proves equally unsatisfactory.

In the past designs were usually produced (at best) in this way: the manufacturer would set the economic limits of price, quantity, material, tools and labour; with this information at his elbow the technician would plan the production of a design satisfying the more obvious functional requirements; and the designer, artist or draughtsman would add the necessary flourishes of decorations and ornament. Look at our suburban semi-detached houses of the "Stockbrokers' Tudor" type, typical chain-store bedroom furniture, the early gas and electric fires, radio sets and so on, and the contribution of each member of the triple alliance can be easily identified.

The Design Unit

Is there a better way of tackling the problem? The current theory is that design is a specialist function calling for specialist training and knowledge: and the industrial designer, working in close collaboration with every department of the producing firm but himself finally responsible for the finished product, is supposed to fill the bill. Sometimes he does, sometimes he doesn't; men who combine practical knowledge and common sense with genuine artistic perception and ability are still very rare—the world is very short of good architects. Most industrial designers work as members of a design team, pooling their special skills and knowledge. This system has worked well so far, and most manufacturers who have employed the services of such teams have reason to be well pleased with the commercial results. The fees charged by industrial designers seem rather heavy to manufacturers who have previously paid two or three guineas a time for their blueprints (or have got them free from the artistic member of the family); but the design cost per unit of output when sales are high enough to keep production steady is insignificant even with the most expensive design. There are many manufacturers in the consumer goods

industries who each year pay far more in driblet guineas, for numerous speculative designs which never achieve the economies of a long run, than they would pay for two or three designs of assured selling power.

Spitfire and Gasfire

In some British industries the design standard is outstandingly good. In structural engineering, shipbuilding—indeed, in nearly all producer goods industries, design is conceived as a practical problem of productive and functional efficiency. Strength, durability, maintenance and cost are the primary considerations of the designer, and such æsthetic qualities as the finished product may exhibit are achieved almost as by-products of engineering skill. Yet it is no accident that the nearer the ideal solution to a technical problem is approached the more satisfying or beautiful does the final form or pattern appear to the trained observer. The Spitfire is widely regarded as beautiful (in spite of its fearsome associations) because in line and form and proportion it looks supremely efficient. Under the wise direction of the late Frank Pick almost every fixture and fitting of the London Underground became pleasing to the senses, yet the guiding principle behind the design of every item was functional efficiency.

Whenever the designer and the manufacturer have been set an entirely new problem—such as adapting vehicle accommodation to suit the internal-combustion engine, or evolving a telephone receiver from the old speaking-tube—they have learned very quickly. They have broken the shackles of nineteenth-century design tradition and have found solutions of considerable merit. And the same success is apparent in the work of most designers and manufacturers dealing in the newer materials—light metals and alloys, plastics, bonded plywood, structural glass, and the rest. But there are other industries—like the old "basic" consumer goods industries of cotton, carpets, furniture, cutlery, pottery and glass—where design is not so satisfactory, and where the *progress* of design is alarmingly slow.

These industries cater today for the same essential human needs as a hundred years ago. Conditions of demand have remained largely unaltered. And because these industries have experienced no real revolution in production technique since the eighteenth century conditions have remained almost static on the supply side, too. Nothing has happened to shake these industries into a complete overhaul of their practice; and it is here that design is most in need of revitalisation In some of these industries the lead in design won in the eighteenth century has already been lost; in others it is being challenged very seriously. How can the lost ground be recovered and the challenge be accepted with confidence?

The Value of Tradition

First our manufacturers and designers should avoid the temptation to sweep the drawing-board clean in order to make a fresh start. In the consumer goods industries tradition is one of the chief assets of British design and can be preserved without hindering further progress. Overseas buyers are very firm in their request that British goods should remain British and not merely imitations of new competitive brands. They want these consumer goods to retain their traditional quality and charm and to acquire new virtues of functional efficiency and style. And these requirements can best be met by speeding up the evolutionary process rather than by drastic revolutionary means.

Style or fashion abroad is extremely difficult to gauge. In the past the taste of most foreign markets has been considered inferior to that at home, and special efforts have sometimes been made to depress standards of design to meet the precise needs of the overseas customer. Before the war the Americans selected from British show-rooms what most British housewives would consider dreadfully ugly and old-fashioned. Some years ago Stourbridge glass manufacturers tried to interest their markets in glassware of a new kind, beautifully moulded and decorated with discretion. But their efforts went unrewarded; the customers clamoured for a return of the "death by a thousand cuts" glassware. Similar experiments were made in other industries, and the response was usually far from encouraging.

Taste and Research

Yet it would be foolish to suppose that taste abroad is unchanging. There are signs in nearly all markets that a revolution is taking place in the attitude to design in the consumer goods industries; and unless the speed and direction of the change are judged correctly and allowed to influence the products of British factories the sad pre-war tale of shrinking trade will be resumed.

Now is the time, while the order-books are full and production problems are limited to matters of supply, to prepare the ground for a design policy for the years when trade is back to normal and fiercely competitive. And the preparation should begin with an enquiry into:

1. The factors influencing taste in each market overseas (purchasing power, age-groups, climate, housing conditions, colour preferences, social custom and habit, etc.). As *The Times* put it recently in a leading article: ". . . In particular the precise requirements of individual markets must be explored, and production must be adapted to them. Less and less can it be thought that the export trade is for Britain an appendage to the home trade, and that the style of product made for the domestic market must be acceptable abroad."

2. The marketing methods employed in each trading zone (the influence of the buyer, retailer and advertising on taste).

3. Possible and probable directions in which taste abroad might move.

Full-scale enquiries of this nature have never been made in the past. Individual firms have conducted special enquiries into conditions in particular markets, and all exporters have collected useful market information from their agents and travellers; but their knowledge of design requirements too often remains sketchy and inadequate.

Enquiries of the scope suggested could be tackled more easily on a co-operative basis—by each industry, or group of industries working as a team, pooling their existing knowledge and the expense of new investigations. At present conditions are far from ideal for such important ventures; there is a shortage of trained investigators in every branch of market and consumer research and analysis, and an even more acute shortage of investigators with a sound knowledge of industrial design. Moreover, there is the important question of which authority should be responsible for instigating such enquiries. The Department of Overseas Trade, the British Export Trade Research Organisation, the industrial federations, the Export Groups, the Council of Industrial Design—all these and other public and private bodies are directly interested in the problem and have certain resources to contribute towards its solution. But there is certainly no guarantee that any one of them can and will make the first vital move. It may be that the Design Centres which the Council of Industrial Design is helping to establish could supply the appropriate directions for this work, but the Centres are not yet in being in most industries, and if research is held up its results will almost certainly be too late to guide design policy over the first difficult years of normal trading.

If the magnitude of the design problem were understood and appreciated by industry as a whole the initiative could safely be left to the federations. But it is not. With a long tradition of competition behind them the industrial units are unable to co-operate as they should to achieve common objectives. The large firms in any industry are usually those which are fully alive to the problem of design in exports, and have spent much time, energy and money in strengthening themselves to meet it. A few of them have built up their own design research organisations with field-workers in the important markets feeding their staffs with design data. One firm at least has established design units in each of its principal markets and receives orders from them accompanied by design blueprints. But the smaller firms lack the resources for such operations, so that at best their designs for the export markets are mere adaptations or imitations of the models of their big brothers

in the industry. At worst, their goods are plainly unsuitable for the markets and damage the goodwill of the entire industry.

The Board of Trade is encouraging small firms to add their quotas to the export drive—even though they have not hitherto sold overseas. But unless steps are taken to ensure that the products of those firms meet with the genuine approval of overseas buyers this policy must be considered extremely shortsighted. A few extra millions to the export total achieved, in a seller's market, at the expense of valuable goodwill, is a bad bargain.

Introduction to

"MARKET RESEARCH AND THE EXPORT TRADE"

THE more enterprising of British manufacturers had in the inter-war years come to accept and use as a matter of course the techniques of market research in helping to solve some of their production and distributional problems in the home market. Many of them regarded it as essential to have by them a precise picture of who were the people who bought their products; what were the likes and dislikes of these people; what were their living conditions; how they could be reached by various forms of publicity; and how they stood in the estimation of the consumers *vis-à-vis* their competitors.

In the same inter-war years British exporters in one market after another were losing ground to their competitors, either native or other exporters. There were various reasons for these setbacks, but very rarely did the British exporter consider using market research methods to discover why he was losing ground, or what could be done to hold or even increase his sales.

Towards the end of the war there was established in this country the British Export Trade Research Organisation, a non-profit-making organisation, based on the support of most of the big British manufacturers. Its purpose is to carry out overseas the sort of consumer research which has for so long been a commonplace in this country. An increasing proportion of Britain's exports is made up of finished manufactures ready for the final consumer, and it is here above all that market research can, as Mr. Clark shows, help the exporter to measure his market in terms of quantity, quality, design, price, etc.

Section 2

MARKET RESEARCH AND THE EXPORT TRADE

By F. T. Clark

MARKET Research is not a recent innovation in business. In the years between the wars an increasing number of manufacturers—especially of consumer goods—called upon market research to provide them with factual information on which their plans and policies could be based.

Such a manufacturer of consumer goods before completing his production plans and deciding upon his sales and advertising policies and expenditure did his best to find out the tastes and spending habits of the people who might be expected to purchase his goods. To obtain this information it was, and is, necessary to go among the prospective purchasers and ask them questions about their preferences in taste, colour, packaging and buying habits. This is known as consumer research.

During the last few years the majority of people have seen in the popular daily press the results of surveys conducted by Dr. Gallup and his associates. But the measuring of the opinions of the general public is but one use of such Research methods. By using a representative sample of the community as a whole, it is possible to measure accurately the "needs" of the population for all products from cough mixture to motor cars, and their habits in the purchase and consumption of these goods.

The value of market and consumer research and the need for specialised organisations to conduct this class of work was widely realised in the home market by 1938, and specialist Research organisations in this country now regularly study the ordinary day to day selling problems covering a wide range of consumer and durable goods.

All these surveys had their origin in similar fundamental manufacturing problems and called for the same type of information.

The manufacturer first wanted to know, who are the people who buy his product and that of his competitors? What type of people are they? What are their incomes, industrial occupations, are they men, women or children, in what part of the country do they live, are their homes in Urban or Rural Districts? Why do they buy the product? Is it due to necessity, economy, vanity or other incentive? Why do

some prefer his product while others buy his competitors' goods? He also wants to know who does the buying and in what type of shop and numerous other questions as to days of the week on which the goods are purchased, the normal quantity usually purchased at any one time, the type of packaging preferred, its shape, colour, etc.

And the manufacturer, so that he will know best how, when and where to advertise his goods, also wants to know his prospective customers' habits in regard to the usual channels of advertising. Which daily and Sunday newspapers and magazines do they usually read? What is their interest in cinemas and hoardings, etc.

This is a fast-changing world, with fierce competition, not only between manufacturers in any one country, but between the countries themselves. All today are striving, as never before, to satisfy the needs of both their home and overseas markets.

The increased tempo of life brought about by speed and ease of travel and communications, and rapid changes in the living conditions and education of the peoples throughout the world require a successful manufacturer to keep fully informed of such changes as they occur, and as they affect or may affect his own business. Generally speaking, a manufacturer has complete control over his manufacturing processes. Because they are under his direct supervision he can readily adopt any ideas that will increase the efficiency of the works. He cannot, however, exercise control over those influences throughout the world which may have a direct bearing on the market for his product, nor can he be expected to know, without taking special measures, of changes in world markets likely to affect his sales. The use of market research by the manufacturer can remedy this deficiency.

Moreover, without market research, it is often difficult for him to know accurately what his competitors are doing in those markets. He may have opinions on the subject but opinions are not enough. He must have facts. Without such facts a manufacturer can be, and is often, misled as to his competitive position in the world's markets.

Thus, his sales in one market may show an increase over the previous year of, say, ten per cent. This increase may appear to him eminently satisfactory. If, however, the total market for that particular product had increased by 20 per cent., his competitive position in that market would have suffered a decline. A wise manufacturer would want to know what had brought about the increase in the total market, who had obtained the major part of that increase, and why. How is a manufacturer to keep abreast of the changes taking place in his own country and in distant lands in order to meet the ever-changing needs of consumers —needs brought about by social and industrial changes beyond his control, and perhaps knowledge? The answer is by means of Market Research.

A manufacturer can draw upon his past experience in an old market. This may prove valuable to him. How much better would it be if he could draw upon the experience of *all* his competitors as well.

Market research will enable him to do so. He will, with the aid of modern market research techniques, be able to judge not only the wise moves of competitors, but the unwise ones, and judge their effect on the market. This is especially important to a manufacturer of consumer goods. He is advised of changes in packaging, content, flavour, colour, in his competitors' products, and is enabled to follow the trend of sale of his competitors' products, and thereby judge accurately the effect of such changes, not only upon his own sales, but upon the total market as well.

A manufacturer should know as an essential part of his planning background the types of consumers available in his market. Their nationality, colour, degree of education, social structure and purchasing power are data obviously required and usually easily available. But he should be armed with much more detail than this unless his product is such that its potential is identical with the total population. Thus, a manufacture of a household line, such as household soap, would consider every family a market for his product, but a manufacturer of an electric washing-machine can only find a market amongst those people who have a sufficient income to afford such a fairly modern home-aid. And even among these people electric washing-machines would have to compete with existing alternative laundering arrangements. Let us take electric washers as an example. A manufacturer of electric washing-machines, before entering any market, should know, among other things, the following facts.

(1) What is the present Total Market (local manufactures plus imported machines).
(2) Who are the chief suppliers in that market.
(3) What are the technical advantages or disadvantages of his own product as compared with those of his competitors.
(4) How are his competitors' goods distributed.
(5) What is the price structure of his competitors' goods.
(6) What are the import tariffs affecting supplies and prices.
(7) What are the freight and insurance charges.
(8) What hire purchase facilities are available.
(9) Which areas are covered by an electricity supply.
(10) How many houses are wired for electricity.
(11) What is the voltage and frequency of the local electric supply.
(12) Existing laundering facilities.

The answers to the majority of these questions can be obtained from official sources. But the answer to the question "What is the Potential Market?" cannot be obtained without a more detailed investigation

of the whole market. How can this be done? Fundamentally he wants to know the number of people whose incomes are sufficient to enable them to afford an electric washer, and, at the same time, live in houses wired for electricity or due to be wired within a reasonable period; why some have and some have not acquired such a washer; what arguments can be most effectively used to interest them in the apparatus, and on what points can they be induced to prefer his to his competitors' product.

To ascertain the answers to these questions it would be necessary to interrogate householders directly.

It is obvious that to question every householder in any country would be impracticable. The cost in both time and money in such a survey would be enormous—and such expenditure would not be necessary. One does not have to eat the whole of a well-made cake to find out if it is a good cake. All that is necessary is to cut a small segment from the cake and taste it. When the cook made the cake he or she carefully weighed the ingredients and well mixed them. If 100 raisins and 40 currants were put into the cake and one was to cut a segment measuring 1-10th of it, there would be a distinct probability of finding 10 raisins and 4 currants in that segment. So with a Consumer Survey. All that is necessary is to carry out an investigation amongst a sample of the Universe. In this case the universe would be the householders whose houses are, or are about to be, fitted with electricity, and whose incomes are such as to enable them to afford a washing machine. Provided the households interviewed form a representative sample of the total universe, then there is a high degree of probability that the habits and views of the sample will represent the habits and views of the total universe.

The importance placed upon the selection of a cross section or sample cannot be overestimated, and is evidenced by the care taken by reputable research organisations in setting up the sample, and the control exercised over the investigators to assure that the calls made by them conform with the requirements laid down.

The preparation of the questionnaire to be used for the investigation and the training of the investigators are of the utmost importance, and should only be undertaken by people who have had considerable experience of that particular work.

The questionnaire must be objective and so framed that answers are not suggested to the respondent.

The investigators must be trained to ask questions so as to obtain reliable answers.

In the case of the electric washing machines the questionnaire must be so worded as to obtain, among other things, reasons (in the case of a householder with a washing-machine installed) as to

What induced the user to instal a washing machine in the first instance?

Why was the particular make installed?

Was the user satisfied with its performance?

(If the answer to this question was No, the reasons for dissatisfaction would be ascertained.)

Had the user seen or had experience of other makes.

Had the user any suggestions or criticisms to offer *re* electric washing machines.

If no washing machine was installed the reasons for not installing one must be ascertained and the questions so framed as to bring out those reasons. The answers to all these questions would have a distinct bearing on such matters as design, price, size, colour of the machines available, and also the type of advertising and sales promotion that would have to be adopted to overcome the reasons given.

Before the investigation proper is commenced detailed instructions in writing, explaining the questionnaire and how it is to be completed, must be given to the investigators, who would be instructed to make a number of test calls. Answers obtained in these test calls would be carefully examined by the Research organisation in order to ascertain if there was any possibility of obtaining ambiguous or biased responses to the questions. Should this chance be present those questions involved would have to be re-drafted and further test calls made.

The investigator would also be supplied with detailed instructions as to the number of calls to be made by him or her, together with full particulars of the different types of the community and the areas in which they lived which were to be covered by him.

Each investigator would be under strict supervision during the survey, and a reasonable percentage of the calls made would be checked by a supervisor.

When the tabulating of the answers is complete the tables are examined and a summary of the report prepared for presentation to the manufacturer or trade originating the investigation.

This work must be carried out by people trained in the art of analysis so as to bring out significant relationships and throw light on the real problems for which the survey was made.

The result of an investigation into the use of electric washing machines on the lines described would provide a manufacturer with the following information with a high degree of accuracy.

1. The number of homes in the country wired or about to be wired for electricity, the occupants of which could be considered as potential purchasers of an electric washing machine.
2. The percentage of homes which had an electric washing-machine already installed.

3. What induced those users to instal one.
4. Why they installed the particular make of machine.
5. What they like about that particular model.
6. Any criticisms or suggestions they have to make of the machine installed or electric washers in general.
7. The percentage of potential users who have considered installing one but who have not done so.
8. Their reasons for not doing so.
9. The percentage of potential users who have not considered the matter.

There would naturally be a relatively large number of subsidiary questions to which answers had been obtained, some of which would amplify or corroborate answers already given by the respondent.

The information would be tabulated and presented for specified areas and income groups so as to indicate the most profitable district and "class" on which the sales efforts should be directed. The manufacturer, on receipt of the report, would be in possession of factual information on which he could base his manufacturing, advertising, and sales policy for that particular market.

Frequently the cost of conducting a survey on the lines suggested in a particular country would not be an economical proposition, except perhaps in the case of a firm with a considerable turnover in that country.

How then can a relatively small manufacturer take advantage of modern market research services? One of the obvious methods would be for the cost of the investigation to be borne by the trade as a whole, and the result made available to all members of that trade.

Business men are realising that the more factual information that is available to the trade the better it is for trade as a whole and are, in consequence, more willing to discuss trade problems openly. Let us assume that there are three manufacturers of electric washing machines in this country, each of whom required a consumer survey conducted in, say, South Africa.

Each might engage a competent Research Organisation to undertake the work. The result would be three reports each containing basically the same information and each report costing relatively the same amount. The cost of each manufacturer could have been reduced by two-thirds if one survey only had been carried out and the results made available to all three companies.

It has been argued that each manufacturer would require specific information on some particular problem affecting, or likely to affect, his own product—a problem which is of particular importance to himself only, and which he is anxious to keep confidential. Because of this he would be prepared to meet the full cost of a special survey.

Such an argument is hardly convincing. If the three separate surveys are efficiently conducted there would be little chance of any particular phase of a manufacturer's marketing activities or product remaining undiscovered.

In order that all British exporters could enjoy the benefits or Statistical and Market Research services a number of well-known manufacturers founded the British Export Trade Research Organisation (B.E.T.R.O.).

B.E.T.R.O., a non-profit-making association, works in close association with the Export Promotions Department of the Board of Trade, in order to avoid duplication of effort. B.E.T.R.O. hopes to take up where the E.P.D. service ends. The organisation is open to all British firms interested in the export trade, and carries out market and consumer research in all markets of the world for any particular trade as a whole or any specific member of that trade.

B.E.T.R.O. plans eventually to have representatives in all the major markets of the world who will transmit market intelligence which will be analysed and sent to its members in this country.

Introduction to

"EXPORT ADVERTISING"

DR. FRIEDLAENDER, on the basis of long experience, maintains that for British exporters concerned primarily with consumers' goods there are a few essential rules that must underlie all their advertising. He holds that sociological strata are horizontal and not vertical, universal and not national, that, for example, the fears and ambitions of a mother in Lancashire are fundamentally the same as those of mothers in California, Cape Town and Cairo; that, in many contexts, between these mothers there are much stronger bonds than exist between people thrown together by national boundaries. It may be true that "the Colonel's lady and Judy O'Grady are sisters under the skin", but one doesn't have to dig that far to find resemblances between the wives of Dutch colonels, British colonels, Argentine colonels and American colonels.

If this is accepted then it follows that advertising appeals that have succeeded at home are likely to succeed, without any fundamental changes, overseas. It therefore follows that in almost all cases the advertising for overseas markets should be devised here in Britain. One further justification for this is that British overseas advertising, to make its greatest effect, must be authentically British—and not an imitation—good or bad—either of the advertising of local manufacturers or the advertising of, say, American or Swiss competitors.

Most advertising succeeds, according to Dr. Friedlaender, because it assures the reader-purchaser that he or she will be sharing the habits of some "higher" social type (not necessarily an overtly admired or respected type). For this reason, overseas advertising should not "go native"; normally the idealised types in the illustration should be "white", and glamorous.

Section 3

EXPORT ADVERTISING

By Dr. K. T. FRIEDLAENDER

The Task

The main task of export advertising is to make Britain's overseas transactions as profitable as possible for the British manufacturer by helping him to adapt for overseas markets those methods of modern salesmanship which have previously shown their value in the home market. Advertising which establishes the trade mark and name of a product in the mind of the consumer, can protect a reasonably calculated price against the attacks of price-cutting competitors. Through advertising Britain can build up and maintain the export of those of her products where the craftsmanship, inventiveness and excellence of design represent economically valuable intangibles.

To envisage measures to this effect with a purely and blatantly national approach would offend all the rules of good publicity; the nationalistic feeling prevalent at present has created in each country an animosity against goods advertising aggressively their foreign origin. Excluded from this antagonism are only those products unproducible in the importing country. Nobody in England will even unconsciously object to publicity for Brazilian coffee, Egyptian cotton or Portuguese sardines, while the same campaigns would be felt as an infringement on their own interests by the nationals of Guatemala, the U.S. and France respectively. General exhortations to buy the products of a foreign country, even if based on a solid proof of national advantage (e.g., need for reciprocity of trade) have in the past never shown appreciable results. We can tell our own countrymen to "buy British" so as to cut down imports, but would fail with this slogan as an international appeal. Export advertising is the weapon of individual enterprise, enriching the nation by the sum total of the export profits achieved by consciously self-seeking manufacturers. Thus the export advertiser who omits in his advertisements in any particular country reference to "made in England" or who hides the foreign origin of his products behind the mask of a local firm, should not be criticised if those measures serve in the end the British national interest.

In proportion to total export turnover pre-war, Britain had established comparatively few brands known the world over. Until 1914

the general appreciation by experts of the uniformly high quality of their products allowed British manufacturers to remain anonymous in their relations with the ultimate consumer. Nowadays, however, competition and the pressure of national needs force British exporters to create a demand for their particular goods from the consumer himself.

The Psychological Framework

Many of the firms now entering the export market may, in the beginning, overestimate the difficulties of handling such a task themselves, and may, therefore, renounce central direction of their selling and advertising activities in favour of a decentralisation which makes every market an independent unit. They feel that without the "man on the spot" as intermediary, they would be too far separated in body and mind from their potential customers to be able to understand and influence them. We can show how unrealistic this feeling is by introducing a psychological approach in which the old Newtonian concept of "action at a distance" is as thoroughly eliminated as it is in the physics of the atomic age. Distances become meaningless, if people are no longer considered to be separated by empty space but to be united in "fields" which contain for our purposes not only all the persons with whom the exporter is concerned at any given moment, but also all parts of their mental and physical environments. Modern psychology has named this concept a "*psycho-physical field*", and sees it filled with the stresses and strains induced by the persons and objects which it contains. The export advertiser, once he has visualised himself as part of this field, will soon realise that neither in body nor in mind can he be isolated from the other contents of his field, and that it is always in his power to effect a reorganisation of an existing situation by the release of new forces which shape the behaviour of others according to his wishes.

Market research and statistical investigations can explore the physical aspects of our psycho-physical field, and this *geographical environment* can be expressed in charts and figures. These are of obvious value to the exporter. The approach, however, which is of the greatest concern to the advertising expert lies in the psychological field. For the advertiser it is not enough to have minute data about the persons inside a given field, if he cannot look into their minds.

Two individuals, even if they are in the same physical surroundings, perhaps even in actual touch with one another, will seldom have exactly the same *behaviourial environment*. Different objects may be singled out by them for registration on their receptive organs, and even to the same object their reactions may be entirely different. On the other hand, persons physically widely separated, may form themselves

through identity of thought or psychological environment into a group with uniform behaviour.

Admittedly, advertising can—and often must—change approach and technique to meet the requirements of all kinds of consumer mentality. But we are greatly helped if we can divide our public into separate groups and shape our policy according to the biggest and most homogeneous segment calculating closely the reactions which can be expected from its members to a particular advertising appeal. This holds true irrespective of the additional difficulty that in export advertising our public is settled all over the world and not conveniently concentrated inside the country with which the manufacturer himself is intimately familiar.

The Public

Available information about the sociological groups in each country shows us the number and distribution of all persons financially able to buy the product advertised. There is no excuse here for a mistake, since the possible price of the product in a new market can be figured as a percentage of the income of various social classes, and this relation allows comparison with previous experience. The mass of persons thus qualified as potential customers is the public of the advertiser, which he will now want to dissect into those psychological groups susceptible to a common appeal of a particular kind. And as good publicity is always part of a long-term policy in establishing profitable commercial relations, the export advertiser—in contrast to the anonymous manufacturer—will not be held back in this task by ephemeral habits or prejudices operating against immediate sales. Experience over hundreds of years shows us that entirely new articles and habits—let us think only of tobacco, coffee, tea—can be introduced into a country, and change from fashionable affectations of the rich to necessities of daily life for the masses. Chewing-gum of a particular brand can be made a best seller in a country which loathes this product. Where national fashions dictate a full beard the advertiser of razor blades can re-shape public opinion to an appreciation of the clean-shaven face.

The universality of such reactions should make us realise that basic human traits are not altered by residence or nationality, and that therefore, the general rules and experience of publicity are just as valid in advertising overseas as at home. The product which directs its appeal to the love of a mother for her child, to the universal desire to attract the opposite sex, to the fear of injury to the body, is not limited by geographical boundaries. In fact, young mothers of different nationality will have more in common, and react more closely, than women of the same country who do not share such an intimate experience and interest.

This psychological commonplace explains why for advertising purposes it is not necessary to divide the world's population into numerous and various races and nations, each to be influenced by a distinctive appeal addressed to all its members. On the contrary, under ordinary commercial conditions no nation develops an all-embracing single behavioural environment which guarantees homogeneous mass-reactions. We do not deny "national characteristics", but we maintain that they are facts inside the geographical environment which are without any appreciable influence on basic mental attitudes. A nation shares with a "crowd" the ability to develop a consciousness of its own which holds its members together and can even mould aliens (such as its yearly crop of new babies) into a single sociological pattern. The toddler adopts his country's language—astonishing ever anew the foreign visitor with this feat which appears so difficult to him—and develops gradually usages, predilections and social forms which may be quite different from another geographical environment. Market research will show how far such divergencies will either make a particular product more acceptable in a country or may demand certain changes in form or composition. But a different way to satisfy a basic instinct, a different form or strength of manifesting a basic emotion, do not compel the advertiser to alter his appeal from the universal human to a characteristically national one. Assumptions that there ever is such an identical national behaviour come only from stereotypes based on pseudo-knowledge, generalisations of individual experience and wishful thinking.

We maintain that the human factor remains constant in all countries, and that for the purpose of advertising the population of the world is not divided vertically into different nationalities and races, but rather, horizontally into social classes each constituting a definite psychological group inside their nation and in spirit more closely tied to foreigners of their own class than to other classes in their own country. It is a calumny to single out "big business" as being international; every profession is. Every international conference of a trade or industry becomes united when the necessity arises to protect common interests against outsiders of all the nations represented. Doctors, artists and clergymen show so much more loyalty to their professions than to their countries that they have often willingly accepted martyrdom at the hands of their compatriots. The advertiser who looks for different appeals in a campaign directed to engineers of various nationalities is just wasting his time. in professional problems they think and act alike.

Equally constant is the group spirit of social classes, which having an internationally identical behavioural environment, are always in accord with the mental outlook of their counterparts abroad and, in periods of high tension, may react with a class solidarity which recognises no

other ties. For the purpose of the advertiser, it is quite immaterial whether the actual income of one country's A class corresponds to that of another's C class. The A's are the top class inside their own boundaries, and have a common outlook with the financial rulers of the richest nation. All other groups adopt the "pecking order" of the chicken yard. The members of B class make it their business to live better than classes C and D, viewing them as inferiors, and take consciously second place behind the A classes of the world which they consider their superiors and try to ape whenever possible. Experiments prove that the reactions of psychological groups formed by corresponding social classes are nearly identical the world over. Each test in which the effectiveness of various appeals is listed in their order of merit confirms this.

In their relation to their nearest and dearest, as women and mothers, "the Colonel's lady and Judy O'Grady are sisters under the skin". But the British Colonel's lady is still more the sister of all the wives of all the Colonels in the world, whether they wear a European uniform or fight for a flag needing considerable research to identify. And Judy O'Grady has not only sisters, but twin-sisters, wherever women have to look at both sides of a penny in caring for homes and husbands and children. So, if the advertising has sold the product to Judy O'Grady in one country, the identical arguments will do well all over the world with women of the same class because they are in the same psychological group, and have the same behaviourial environment.

There are naturally certain differences among the members of any one class, and very often advertising has to consider other and perhaps smaller psychological groups; each individual can change his present mental disposition as suddenly as a chameleon its colour, and advertising wins or loses in direct proportion to its power to persuade people to class themselves into a definite psychological group where their decisions will then be more or less pre-ordained by the habits and interests prevailing in this group the world over. Thus the same person reacts differently when visualising himself as, respectively, "business man" or "consumer", as "father" or as "radio-owner".

These groups create themselves as the result of any new force which may enter their psycho-physical field. There could not have been greater differences in race, colour, education, background, personal interests and social standing than there were among the inhabitants of Jack London's famous Californian "Valley of the Moon". But every problem which touched their common interests as "live-stock breeders of Sonoma County" united them into a homogeneous group with identical reactions for which they dropped for the moment all other affiliations otherwise so much more congenial to them. The overseas advertiser will greatly facilitate his task if he thinks of his public

not in terms of nations, foreign and far away, but as human beings with groupings similar to those of his own country, each showing the same reactions to which he is accustomed in his home market. Too many of the artifices recommended from abroad as having a special appeal to a particular nation are often needless complications, unsupported by either practical experience or common sense.

The Approach

Acceptance of our proposal to base overseas advertising campaigns on an approach previously employed with success in the home market cannot be taken to mean that it is also wise merely to copy for abroad a particular psychological appeal without considering the advisability of regional adaptations. While many of the details concerned are only a problem of technique, all advertisements have certain features such as their illustrations, which so deeply influence their character, that comparatively slight changes may alter, in fact, their whole psychological atmosphere. Thus whether the persons depicted in our advertisements, e.g., in India, should be Europeans or Indians is a highly controversial subject in export publicity.

The great industrial nations of the modern world have developed an identity of surroundings which, when filled with people of the Caucasian race, makes it nearly impossible to say whether a particular picture shows a scene in England, on the Continent, in the Dominions, or in the U.S.A. In these markets there is thus no problem for the advertiser. But what about those countries where backgounds, dresses and physiognomies are so typical of a certain region, be it China, India or West Africa, that it is a major operation for the advertisement to "go native", and to substitute new types and a foreign background? When we study the precedents set by old-established and successful export advertisers we are struck by the seeming inconsistency of their procedure. We shall recognise, however, that there are, after all, general rules based on psychology and common sense, which will normally be valid.

Let us begin with the assumption that any person shown in an advertisement should set an example to the reader, and should signify to our psychological groups, authority and prestige, two qualities which are the prerogatives of the "leader". It is often the stratagem of trade press and consumer publicity to introduce the portrait of a person who, in fact, is a recognised leader in the profession addressed, or in the subject-matter with which the advertisement deals. Such leaders of international thought and customs will nearly always be Europeans, and only seldom can any good purpose be served by discarding a world-known figure for a second best just because the latter is a native of a particular foreign country. If the "leader" qualification is only

implied through outward appearance, as through the professional garb of the doctor or dentist shown, the European type will make the stronger impression everywhere as denoting superiority in qualifications *and* resources—therefore greater prestige.

It is in the interest of the advertiser to establish also with a similar authority, and as an example to be willingly imitated, those persons who do not only recommend his product—as the ones above—but are also shown as particularly beautiful, healthy or happy because it is suggested that they have used the article advertised. Experience confirms that such a "satisfied customer" will become more of a "leader" to be followed if he is depicted as of European type, implying thus not only the fashion set by the most discriminating class of consumers, but corresponding also to the ideal before everybody's mind. George H. Lorimer, of *Saturday Evening Post* fame, told the story of a Southern Colonel, who, wanting to replenish his dwindling fortunes by a stroke of genius, bought an old, much-illustrated edition of the Bible. Having blackened the skin of all the angels illustrated, he tried to sell copies among the negroes, believing thus to strike an especially welcome note. Not one copy was sold, and an old negro explained mournfully that at least after their death his brothers expected to be white. The influence of the film-industry in creating an atmosphere of "glamour" around a particular—even if partly fictitious—type of European beauty and behaviour cannot be underestimated.

The next group of illustrations which has become so general through "strip" advertisements, shows the "prospective consumer". He is not as happy as the "satisfied customer" just discussed who has experienced already all the perfection and effectiveness of the advertised product. He, poor thing, has still some doubts which he tries to clarify by the most naive questions from "one who knows". Here again we believe the European atmosphere is superior to its native counterpart since the whole milieu of the picture is thus elevated to a situation of European "glamour" with the corresponding spur to imitation. The Indian housewife will prefer the product seemingly used extensively by the pukka sahib's wife to the one her neighbour has in her home. It will take a long time before natives desist from imitating "poor white trash" rather than their most enlightened countrymen. How far such a mechanical and meaningless aping can go is shown by the rush business which the Japanese did with African natives in multi-coloured caps and clips simulating a complete fountain-pen. Bucks who did not know how to spell c-a-t displayed them proudly in their breast-pockets, sure of thus emulating one great feature of the white man's civilisation.

Attempts have been made to show an Anglicised native as the user of a product so as to influence his less fortunate countrymen; we see pictures, e.g., of an Indian girl in cap and gown recommending the

use of a well-known English toothpaste. This seems a weak middle course. If the University graduate already apes English customs we should "go the whole hog" and choose right away the picture of a typical European as an implied testimonial, because this will carry still greater conviction. We do not imitate "our betters" when we can follow the example of "the best".

We are convinced that generally the fictitious "international" type used in all European advertising, and his (or her) standard of dress and behaviour, are probably the best, even where prospective customers look and dress entirely differently. For they see in this type a model of how they would like to look in an ideal world. To be white, to be well dressed, to look like a film-star, constitutes "glamour" all over the world.

This is the reason why in overseas advertising only good-looking people (by white standards) should be shown, and why the experience in the home market should be closely followed. If the English advertiser uses as a model a homely type it is still for the most part idealised, and always in some respects attractive; every possibly disagreeable feature is rightly avoided. Even if the advertiser is willing to make concessions in regard to personal charm, he will be adamant in his decision to show his models dressed in exactly the way the readers of his advertisements would like to be dressed themselves. Even the homely woman in an advertisement does not wear last year's dresses, and her kitchen apron is as clean and nicely starched as it will be only once a week in the average household. This "glamour" cannot be dispensed with, and if we were given the choice between being either terribly ugly yet exquisitely well dressed, or beautiful as an angel but habitually in rags, the decision would always be in favour of the first alternative. Fashionable dress brings us, as Herbert Spencer said, a peace which religion cannot give.

There are, however, some important exceptions, where we believe it indispensable that illustrations should "go native". A European cannot be shown doing work which he never performs according to the native's experience. A European woman in a kitchen, the white butler, the sweating navvy, do not fit into the stereotype of many tropical countries about routine life abroad. Europeans should not be shown occupied with "inferior" tasks, not because this may lower their prestige, but because such an unfamiliar picture puzzles the reader without conveying to him a message applicable to his life and work. Another case where European types are inadvisable is the picture "before" of the "before and after" situation, so beloved by patent medicine and correspondence school advertising. In the psychological appeal to competitive endeavour which tries to provoke the attitude "You can do as well as he", the picture of the "before" part must show an inferior

to the reader, so as not to discourage him from the possibility of success. If the "local boy makes good" story concerns the fate of a European the native feels the dice loaded against him, and gives up even the attempt to follow an example where already the low starting level seems unattainable to him.

There is one special stratagem of some advertisers which has a close relation to this whole problem, and which consists in showing types peculiar to a country enjoying a worldwide renown for a special class of products: the typical Frenchman (as imagined by the average reader) is depicted recommending a bottle of hair lotion or scent; the so-called typical German is used to inspire confidence in the advertising of sausages; and sometimes a poor Dutchman has to stand for years at the side of a ripe-looking cheese. Such illustrations demand a conscious exaggeration of national characteristics in dress and appearance, so as to be clearly understood by the masses and thus tend to become caricatures which are quite unacceptable to the nationals of the country whom they are supposed to represent. We find, in fact, that articles thus advertised usually do not originate in the country from which they take their "glamour". The perfume thus advertised is usually not French, but only "*à la Française*".

It is the success often achieved in the U.K. by the attention value of "foreign" types which is apt to tempt the novice in export advertising to insist without real psychological reason on "going native". He suffers from the fallacy that an illustration of a type unusual in England is also "foreign" abroad with all the corresponding advantages of such an approach. He is fascinated to see his particular brand of toothpaste or laxative, not against a traditional English background, but against one of Congo huts. And how thrilling looks the Indian ayah in the scheme for India, and the negro boy in the plan for West Africa. If indeed illustrations of this kind should have an irresistible attention value overseas, we would have to include this factor in our calculations. But logic shows they have no such attraction. Does a piccaninny possess attention value in Birmingham, Alabama, or in Birmingham, England? Who looks at him south of the Mason and Dixie line? A safari setting out is an interesting picture to a Londoner, but who in Nairobi would turn his head to look at dude hunters? Chesterton's Father Brown says that to hide a leaf you must go into the forest, and there is really no more effective way of hiding a fascinating leaf out of the album of strange types and foreign folklore than to exhibit it just where it is neither strange nor foreign, but simply daily environment and boring routine. Perhaps some English advertisers could make more of the opportunities they have for bringing foreign elements into their *home* advertising. But interesting pictures should not be wasted where they do not provide "glamour", but rather represent something with which

the native does not want to associate himself and from which he even tries to escape.

The Presentation

We have previously expressed our regret about the attitude of the British export advertiser which has often not allowed him to trust either his own qualifications or those of British advertising agencies for the planning and execution of worldwide campaigns. In most other countries, especially in the U.S.A., manufacturers have made their home advertising consultants the centre of activities everywhere and supported their agencies' expansion into foreign markets by guarantees of contracts for local advertising. Thus we find the world ringed with branches of American agencies living up to the rigid standard of Anglo-Saxon "service", and never afraid to impose the dictates of sound publicity on a local technique, which may be lagging behind for want of talent or turnover. After learning from the experience of a hundred years that only an original approach can lift an advertisement —and a whole campaign—into the focus of public consciousness, British advertisers still accept meekly the unsound advice of foreign advertising agencies that every campaign in their country must fall into the local pattern. It seems high time now that the British export drive recognised the accomplishments of British advertising talent as one of the products well worth exporting. Statistics prove that the most successful propaganda of recent years were those war-time broadcasts of the B.B.C, which were unconditionally British and did not allow you for a moment to forget it. The overseas advertiser will often dispose of only a limited appropriation in each foreign country. If this makes it impossible for him to equal his local competitor's effort in advertising space and frequency, he must look to a superior technique to overcome this handicap. The smaller the advertising appropriation and the more unusual local advertising usage, the greater is the advantage to the British exporter in presenting his message in a form "as British as roast beef".

While we have sufficiently discussed the types of persons to be portrayed we still have to warn the artist of his responsibility to ensure correct references to those aspects of everyday life, in which all countries differ. In many countries the motions of knitting are contrary to those used by English women, and woe betide the English advertiser who overlooks such a detail! Telephones look different in every country, so do salt containers, spoons and public conveyances. On the Continent the slit on the back of men's collars is horizontal, and men's ties are much longer. Don't have your mourner "go into black" if in China. In China mourners go into white. Some symbols have no international meaning. Moscow understood Mr. Churchill's famous

"V" sign to symbolise the second front. Appreciation of the fish as a symbol of Christ is dependent on a knowledge of the Greek language. No amount of trouble is sufficient to save the advertiser from *all* such mistakes. Do not forget that in many markets the picture has the greatest selling appeal and must, therefore, be treated with corresponding attention to detail.

We can truthfully maintain that Britain has produced some of the finest slogans and advertising texts If English is the language of the export market addressed, most of the "copy" written for home consumption will be universally effective whether the appeal is chosen for the intellect or the emotions, whether the treatment is factual or imaginative. The absence of the gaudy and the spectacular has robbed the British advertiser of short-lived sensations, but has established universal belief in his claims. Nobody is better able to produce convincing advertising texts than the English copywriter intimately familiar with all sales appeals of the product, in constant touch with his client's headquarters, and properly briefed as to various local requirements.

It is, however, often overlooked that in many countries English is not the mother tongue of the reader, but serves only as a kind of Esperanto allowing two persons to converse of whom neither speaks the other's native language. Advertisements for the English press in China and India should, therefore, be written in the simplest language so as to be fully understandable to the nationals who form, especially in India, by far the biggest percentage of their readers. But while, admittedly, the level of education varies considerably, from one country to the other, we have no proof that this difference extends to the intelligence of a whole nation. For example, over thirty years ago, at the Bureau of Salesmanship Research of the Carnegie Institute of Technology in Pittsburgh, we started experiments and tests for grading the intelligence quotient typical for different nationalities. The results were so varied among the nationals of any one country that they are, in one respect, conclusive: no general law can be laid down to the effect that the inhabitants of one territory are more intelligent or mentally more alert than those of another. But often those advertisers who sometimes use in Great Britain a style of "copy" so clever and "high-brow" that it may go beyond the mental horizon of their possible customers, create the opposite for their overseas advertisements, in which they "talk down" like any good uncle to his six-year-old nephew. There is not a child in existence who cannot promptly sense this patronage and who does not resent it intensely. Certainly advertisers have no justification for regarding the population of any one country as being mentally children. It is a sound rule never to underestimate the intelligence, and never to overestimate the knowledge of the public.

The use of local expressions is often considered one of the best stratagems for giving local "flavour" to an advertisement. In these cases one can usually detect that the whole text was squeezed and twisted to make it possible to get in such words as "tiffin" or "number one boy". The use of such words may sometimes be good advertising—outside the country where they are in common use. There is a snob-appeal in such expressions which might help considerably an advertisement in England for curry-powder. On the other hand, even after thirty years under the cloudless sky of the tropics, the word "lunch" will be understood perfectly; in fact, this plain English word might create just that agreeable mental atmosphere in which desire for a typically British product can best be aroused.

The difficulties of translating English texts adequately into foreign languages should not be underestimated. We would recommend that "copy" to be translated should be written with this end in view. Crisp and unambiguous words, short sentences and clearly-expressed ideas lead nearly always to effective advertising texts, even if translated word by word. The knowledgeable advertiser, however, will consider the importance of semantics and insist on a re-writing in the foreign language preserving every shade of meaning of the original. For rendering slogan and headlines only the collaboration of a *confrère* in the advertising profession can give full satisfaction. Some expressions are so specific that they defy even the best translator. An "Elder Brother of Trinity House" who described his rank in France as "*un frère ainé de la Trinité*" could really not be astonished to hear the exclamation "*mon Dieu!*" Primitive languages are always a source of complication and give occasionally rise to the most perturbing mistakes. It is heartbreaking to hear at the end of a campaign that the phrase which was confidently expected to praise a tobacco as "best imported" meant according to another translator "cleverly smuggled".

Chapter VIII

CONCLUSION

From the detailed analysis of the preceding pages the picture that emerges is clear enough. Britain's purpose to recover and raise her pre-war standard of living depends first and foremost upon the rehabilitation of a stable system of multilateral world trade wherein all participants enjoy to the full the advantages of an international division of labour; it depends secondly upon the success with which British industry increases its efficiency and abandons the complacency and defeatism of the inter-war years.

The first condition for success—the rehabilitation of world trade on a stable and enduring basis—cannot be created by British efforts alone. Its achievement depends essentially upon the economic policy and leadership of the United States in world affairs and upon the stability of the American domestic economy.

During the inter-war years the United States—and the rest of the world—failed to adapt themselves successfully to the fact that the States had become the greatest economic power in the world. During those years she produced 36 per cent. of the world's pig iron, 40 per cent. of the copper, 30 per cent. of the lead, 30 per cent. of the aluminium, 35 per cent. of the zinc, 33 per cent. of the coal, 35 per cent. of the steel, and 63 per cent. of the petroleum. Her industries produced more than the combined efforts of Britain, Germany, France, Japan and Italy. Her people, although constituting only 6 per cent. of the world's population, enjoyed roughly one-third of the world's income.

For the most part this colossus ran on its own resources, but some of the world's export markets depended vitally for their prosperity upon United States purchases. Thus, in 1938, a year of comparative depression in America, the United States bought 69 per cent. of the world's exports of silk, 59 per cent. of cotton seed oil, 56 per cent. of bananas, 49 per cent. of coffee, 40 per cent. of tin, and 38 per cent. of rubber. Even in that year her purchases on all world markets were equivalent to 9 per cent. of world imports, and in 1928, a boom year, she bought one-eighth of the world's exports.

Her purchases, moreover, were highly specialised. Of all her imports in the inter-war years roughly 30 per cent. consisted of foodstuffs and 50 per cent. consisted of raw materials; for various reasons—e g , the efficiency of her own manufacturers, and the height of her tariffs—her imports of manufactured goods were not of great importance

The geographical composition of United States imports was equally marked. In the average year 12 per cent. of United States imports came from the South-East Asia archipelago (excluding Japan), 27 per cent from Latin America, and 15 per cent. from Canada. The incomes and prosperity of the peoples of these areas depended urgently upon the size and stability of their sales to the U.S.A. On the other hand, their own purchases from that country were, with the exception of Canada, comparatively slight. For the most part they spent the dollars acquired from the U.S.A. on buying British manufactures. This indeed, was a typical cycle of transactions in many parts of the world—United States purchases of raw materials provided agricultural and mining communities with the incomes to buy other people's manufactures.

The structure of United States exports was similarly large, concentrated and based on multilateral trade. In 1928 her share of world exports was 16 per cent., and even in 1938 it amounted to 14 per cent. of the total. Their composition in an average inter-war year was as follows:—

	Percentage all U.S. exports.
Foodstuffs	11
Raw materials	44
Manufactures	45
	100

In the first two categories her main contributions were raw cotton, crude petroleum and petrol, tobacco, copper, maize and wheat. In 1938 her shares in total world exports of these products were as follows.

Product.	U.S. exports as percentage world exports.
Cotton	37
Crude petroleum...	25
Petrol	31
Tobacco	43
Copper	27
Maize	43
Wheat	18

In an expanding home market, however, the quantities of these products available for export tended to decline, and increasingly throughout the inter-war years the United States was turning towards the export of manufactures. In 1929, at the height of her domestic boom, United States exports of iron and steel-mill products, machinery and automobiles amounted to 26 per cent. of all her exports.

Geographically the United States based her exports, both of raw materials and of manufactures, upon sales to three main areas; in an average year, 17 per cent. of her exports went to the United Kingdom, 27 per cent. to the rest of Europe, and 17 per cent. to Canada. These sales frequently completed the cycle of world multilateral trade—broadly America's customers acquired their dollars to buy United States goods by selling manufactures to the primary producers who had obtained their dollars by selling raw materials to the United States.

In an ideal world this international division of labour should have worked to everyone's advantage, and the arguments for trade restrictions and bilateral trade agreements would have been patently unconvincing. But in the real world it was difficult to neglect the fact that the chain contained some potential weak links. Perhaps the most important of these was the United States. She was a tremendous purchaser of other people's raw materials, and these purchases were made almost entirely for industries producing for the home market. With any setback in the United States national income, imports were bound to suffer—and to suffer on a mammoth scale. Although United States' imports absorbed roughly 12 per cent. of the world's exports, these purchases were equivalent to only 5 per cent. of her national income. Quite small changes in the American national income would have led to appreciable changes in her imports; but in fact these changes in income were not small; they were on a colossal scale and were squeezed into comparatively short periods—in 1929 the net national income was $83.3 billion; in 1932 it was $40.0 billion, and roughly 25 per cent. of her workers were unemployed.

	U.S. National Income		U.S. Merchandise Imports	
	$ billions	Index	$ billions	Index
1929	83·3	100	4·4	100
1930	68·9	83	3·1	70
1931	54·5	65	2·1	48
1932	40·0	48	1·3	30
1933	42·3	51	1·4	32
1934	49·5	59	1·7	39
1935	55·7	67	2·0	45
1936	64·9	78	2·4	55
1937	71·5	86	3·1	70
1938	64·2	77	2·0	45

These drastic reductions in United States income and therefore imports need not have led to depression and disaster in the markets where she customarily bought if the United States had been willing to extend considerable loans and credits—either to the primary producing countries who could thus have maintained their purchases from

industrial European countries, or directly to the latter. In either case world markets would have been sustained and America's position improved by increased employment in her export trades.

In fact, the United States did nothing of the kind. On the contrary, her policy, put crudely, was to provide credit when it was not needed, and to foreclose when it was most needed. For the twelve years 1919-1930 the United States provided \$11,600,000,000 (an annual average of \$965,000,000) to foreigners by way of subscriptions to new foreign issues and new direct investments abroad; and then in the period 1931-1939 this movement was completely reversed and there was a net return flow of United States long-term capital to the extent of \$1,200,000,000 (an annual average of \$133,000,000).

On the outbreak of the European war there still seemed to be no solution to the problem of America in world trade. For the year 1939 the national income was still below the 1929 peak; roughly 9,000,000 workers were unemployed and the value of United States' imports of merchandise was only half their 1929 figure. For the duration of the war the problem was temporarily shelved. Almost 12,000,000 Americans disappeared from the labour market, and joined the Armed Forces; American farms and industries doubled the national income and provided work for everybody—and American exports increased from \$3 billion to \$14 billion.

	National Income \$ billions	Merchandise		Export Surplus \$b.	Unemployed millions, July	Industrial Production
		Imports \$b.	Exports \$b.			
1939 ...	70·8	2·3	3·2	0·9	8·8	100
1940 ...	77·8	2·6	4·0	1·4	8·4	115
1941	95·6	3·3	5·1	1·8	5·2	149
1942 ...	119 8	2·7	8·0	5·3	2·4	183
1943 ...	147·9	3·4	12·7	9·3	1·3	219
1944 ...	160·0	3·9	14·1	10·2	0·9	216
1945 ...	161·0	5·5	11·9	6·4	1·0	186
1946*...	160·0	4·5	9·3	4·8	2·0	170

* At rate of first six months; unemployment and production as at July, 1946.

The solution was, in fact, very simple—but hardly one that can be adopted permanently in peace-time. In the five years 1941-1945 the United States exported to the rest of the world over \$30 billion worth of goods in excess of the goods she imported. At the end of the war the rest of the world owed the United States four times more than they did at the end of the First World War. And since the end of the war the United States has wiped out these debts, provided new loans, and set out to build her foreign trade and world trade on a durable basis. With a greater clarity than ever before in the nation's history

the Department of Commerce has specified for the United States the nature and dimensions of what should be its behaviour and long-term targets in international trade.

"Capital outflow from the United States to foreign countries will probably begin to decline after reaching a peak in the next year or two, and thereafter imports should rise steadily as the foreign nations begin paying off their debts.

"During the next five years, if generally favourable conditions prevail at home and abroad, and if United States long-term investments and loans are carried out as now contemplated, our exports might reach, and be maintained, at a level between $11,000,000,000 and $12,000,000,000.

"United States loans, public and private, and other foreign investments, may total as much as $30,000,000,000 by 1951, including some $10,000,000,000 in pre-war investments.

"In the long run the United States international account must be balanced through our acceptance of increasingly large imports of manufactured goods and through our purchase of services, such as foreign travel. The basic foreign-trade problem facing this country is that of gradually developing an import surplus without harmful repercussions on export trade and the domestic economy. The heavier our foreign loan and investment programme is, the more urgent it will be for us to adopt commercial policies conducive to a rapid growth in imports in order to offset the interest and amortization charges.

"The need to change over from an economy supporting an excess of exports to one supporting an excess of imports will probably come between 1955 and 1960. After the change-over is accomplished there should be a steady increase in both exports and imports as the United States, assuming a mature creditor position, shares in the expanding world economy.

"However, while the change-over is being made, the nation's economy will have to adjust itself to the temporary and relatively moderate decline in exports and to the simultaneous increase in imports.

"The steady growth in both our imports and exports in the post-transition period should go a long way toward maintaining prosperous conditions in this country. Assuming there are no serious setbacks to this expanding world economy, United States imports might be expected to increase to about $14,000,000,000 and exports to about $13,000,000,000 by 1975. In addition to buying from us $13,000,000,000 in merchandise, the various foreign debtor countries should by 1975 be in a position to send us each year about $4,000,000,000 in cash, representing investment income and amortization of loans. On the other side of the ledger, accounts could be

choose the kind of government under which they wish to live, dealt more fully with the third fundamental of foreign policy. He said: "We want markets in which to buy and sell. We want those markets to be open and free alike to all countries. We do not ask for any special privileges for ourselves, and we hope we may induce all countries to give no special privileges to others. We stand for an expanded world economy, increased production, increased distribution and increased consumption of goods so that all peoples everywhere may enjoy a higher standard of living. Although we are by far the greatest industrial nation in the world, we are ready to assist other countries to industrialise and to develop their resources along sound lines. The rising standard of living which will follow will mean more trade for us."

With a frankness never before matched in Great Power history the United States government has stated again and again that its part in world politics is primarily conditioned by economic self-interest. In the planning and promotion of the international instruments necessary for the rehabilitation of multilateral world trade it has invariably taken the lead, provided the bulk of the initial resources, and has tried to make allowance for ideological differences. Other people's economic developments along non-capitalist lines have been deprecated but accepted. "Our second principle is that the foreign trade of the United States should be carried on by private enterprise . . . because private operation, in our view, affords the best assurance that trade will be competitive, efficient, progressive and non-discriminatory, and finally that it will be non-political. . . . We can determine how trade is to be conducted within our own borders; we cannot determine how it is to be conducted abroad. Nationalisation has made great progress in many countries since the war. We may not welcome this, but there is very little we can do about it. . . ." (Mr. Clair Wilcox, Director, Office of International Trade Policy, U.S. State Department, September 26, 1946.)

Mr. Wilcox's views may appear to some to lack the backing of historical confirmation, but it is true that American plans have constantly made provision for the participation of non-capitalist States. And those plans have not been niggardly. The structures of the International Monetary Fund and the International Bank for Reconstruction and Development were worked out before the end of the war, and both institutions are already in operation. In November, 1945, the State Department published its "Proposals for Expansion of World Trade and Employment—in Preparation for an International Conference on Trade and Employment and Presented for Consideration by the Peoples of the World". In September, 1946, as a prelude to this conference the Department published its "Suggested Charter for an International Trade Organisation"

There is a fourfold pattern in both documents; their purpose is to organise world machinery to expand world trade, to raise standards of living throughout the world and to prevent chaotic changes in these standards; these ends are to be achieved by: (*a*) reducing governmental restrictions on international trade; (*b*) eliminating restrictions imposed by private combines and cartels; (*c*) establishing machinery for the orderly handling of world surpluses of primary commodities; and (*d*) by common agreement that all members will, within their own boundaries, achieve and maintain full employment through policies which do not create unemployment elsewhere.

The American proposals have still to be elaborated in detail; and on many points there is likely to be long discussion, even among those in general agreement with the proposals. Fundamental disagreement has, however, been expressed by some groups in Britain. First, there are those who believe that Britain's future prosperity can be adequately based on economic collaboration with a relatively small group of countries—either the rest of the Empire or with a Western European *bloc*. The analysis of world trade in this book shows that, even if those selected as partners were willing to play, the result would be to restrict Britain's standard of living; we would be attempting to build up an economic *bloc* consisting "of countries to which we already owe more than we can pay, on the basis of their agreeing to lend us money which they have not got and buy only from us and one another goods we are unable to supply."

Most of these critics base their opposition on little more than an uncritical penchant for tariffs; others, however, argue their case for rejection upon a more impressive show of "Keynsian economics". They urge that prosperity and full employment in this country would be jeopardised by the imperfections of a multilateral world trade system, and that Ricardo's assumptions of perfect competition in world trade invalidate the classical case in favour of free trade. They have, by and large, mistaken Keynes for Schacht. Keynes himself wrote, after considering the American proposals for the International Conference on Trade and Employment, "we have here sincere and thoroughgoing proposals . . . expressly directed towards creating a system which allows the classical medicine to work. It shows how much modernist stuff, gone wrong and turned sour and silly, is circulating in our system, also incongruously mixed, it seems, with age-old poisons, that we should have given so doubtful a welcome to this magnificent, objective approach which a few years ago we should have regarded as offering incredible promise of a better scheme of things."

There could be no fairer assessment of the proposals; but some doubts still remain. They are concerned, not with the proposals, but with America's capacity to shoulder the obligations that would make

the scheme a success. The well-being of every member would be dependent upon the maintenance of full employment in the United States, and its maintenance by methods which would not create unemployment elsewhere.

It is true that Congress has placed full employment legislation on the Statute Book. It is true that half-a-dozen departments, permanent and temporary, have prepared reports detailing the necessary steps, and it is true that 90 per cent. of the academic economists in the country fully support the policy, the legislation, and the details. And in spite of this there are many objective Europeans who, having studied the inter-war economy of the United States, or who, having lived there in recent years, still feel that the business and political "climate" of the country is such that the maintenance of full employment in the United States is not possible.

Full employment, in the United States and anywhere else, calls for an appreciable measure of governmental authority in the fields of investment and consumer expenditure. American history since mid-1945 has emphasised that in that country it is difficult to arm the Administration with the necessary authority and it is difficult to exercise controls when powerful minorities disapprove of them.

The American dilemma is that most Americans support the Administration's international economic policies, and most of them disapprove of, or fail to understand, the implications of these policies—especially in the domestic field.

While the preparations for the world conference on international trade were being completed, Mr. Kenneth B. Williams, economist of the Board of Governors of the Federal Reserve Banking System, published his views on the problem of full employment. He wrote: "The full employment goal . . . calls for no sacrifice of personal freedom, no imposition of heavy direct government controls, no fundamental change in the rôle of the State as a servant of the people. It calls for real jobs, not made work. The goal expresses the sturdy traditional demand for the right to earn one's own way and stand on one's own feet. A properly defined full employment goal always should be stated as one of 'full employment opportunities', since there is no intention to suggest that jobs be guaranteed to individual workers. The intention is rather to provide the economic environment in which qualified workers are assured the opportunity to obtain jobs within a reasonable time if willing to make reasonable adjustments."

That was written in 1946. It was with similar sentiments on his lips that Mr. Hoover in 1930 watched the American economy crash in ruins. Mr. Williams' ruggedness may cheer the hearts of his employers, but from this side of the Atlantic it has a chilling fatuity. Europeans may reasonably be fearful of placing complete reliance

upon a project which assumes that the United States' economy will no longer be subject to booms and slumps. And that is Britain's dilemma —Britain's self-interest demands that the American proposals for expanded, freer, multilateral trade should succeed, but their success in practice depends primarily upon the understanding of the American people. Britain has no alternative but to risk her future upon that understanding and to throw all her support behind the international economic organisations planned by the U.S. Administration. If they succeed then Britain's economic problems will be well on the way to solution.

But they will not be entirely solved. At the end of 1946 the volume of world trade is roughly equal to what it was in the years 1936-38; and Britain has already recovered her pre-war share. By the beginning of the 1950's, if all goes well, the volume of world trade might well be 50 per cent. greater than it was in 1938. Even if Britain shares *pro rata* in this increase she will still be appreciably short of her export target; but even this cannot be taken for granted. By then, Japan and Germany, two of her major pre-war competitors, will probably be back to full production in their export industries; she will be facing the competition of the many countries whose industrialisation was hastened by the war, particularly Canada, India, and the Latin American countries; and the U.S.A. will be seeking markets for $11,000,000,000 of goods—roughly double the volume of her 1938 exports. Clearly, competition in world markets for manufactured goods will be keen and Britain's success in selling in these markets will depend upon herself—upon the efficiency of her export industries and the efficiency of those who sell the products of these industries.

Efficiency can be defined in various ways, and a good deal of confusion prevails, both in the measurement of differences in productivity and in the attribution of these differences to their causes. Exploratory work is still being carried out on the former problem, but already there are certain comparative statements (and productivity can only be discussed in comparative terms) which are generally accepted as broadly true.

The first of these is that since the beginning of the century the rate of expansion of British industrial efficiency—as measured in real income per head of the population—has been slowing down. Over the forty years preceding the Second World War the average annual rate of increase was barely 1.5 per cent.—as compared with probably 2 to 3 per cent. per annum in the second half of the nineteenth century. This slowing down was not reflected in the lives of the majority of British people for two main reasons. The State, irrespective of the party in power, pursued policies which tended to equalise the distribution of incomes; i.e., part of the gains of the working class were merely

at the expense of their richer fellow-citizens. Secondly, some of the effects of the slowing down in industrial progress were for the time being made good by a reduction in the national volume of saving and investment, and by a readiness when things became too bad, actually to "live off" capital. The war has not reversed the inter-war trend. It is hardly likely that today British industrial efficiency is as high as it was in 1938. No index of general industrial production is yet available, but in some of our major industries, e.g., coal and cotton, the official returns indicate that output per head has actually fallen—and fallen appreciably.

The second comparative generalisation is that the rate of expansion of British industrial efficiency compares unfavourably with the achievements of many other countries. Again the available figures are scant but indicative. Thus, between 1925 and 1929 while Britain's national income remained practically stationary, the national incomes of Holland, Sweden, and Denmark each increased by roughly 12 per cent., and those of France, Norway, Canada and Germany each rose by roughly 20 per cent. In the second post-war decade the same disparities continued. It is true that in two countries—the United States and France—no advance at all was recorded, but elsewhere, progress—this time as measured by the physical volume of industrial production—again often outstripped Britain's achievements.

	Physical volume of industrial production, 1936-7-8 1929 = 100
United Kingdom	119
Germany	116
Norway	126
Denmark	134
Sweden	143
Japan	165

A third form of comparison remains—output per man in Britain, as compared with output per man in the United States at the same points of time. Various estimates have been made along these lines, and all have shown similar results—a substantial advantage in favour of the United States. Professor Taussig, dealing with figures for 1907, found that U.S. productivity per head was roughly double that in the United Kingdom. Sir Alfred Flux and Colin Clark, working independently, arrived at similar estimates of the disparity twenty-five years later. Still later Dr. Rostas, working on figures for the mid 'thirties, estimated that United States output per man was 2.3 times that in the United Kingdom. Since at that time the United States working week was 35 hours as against 47 in this country, it follows that in the United

States output per man hour was about three times that in the United Kingdom.

The figures prepared by Dr. Rostas cover a wide range of industries, and in almost every one—mining, automobiles, building, textiles, machinery, domestic equipment, footwear—there is the same striking contrast in output per man hour. The various official missions of enquiry into particular industries—Reid on coal, Platt on textiles, Bossom on building—have all confirmed the general outlines of Dr. Rostas' figures.

Theoretically, differences in output per man hour may be due to differences in:

(*a*) The availability and cost of raw materials.
(*b*) The quantity and quality of the capital equipment in use.
(*c*) The layout and organisation of workshops and plant.
(*d*) The energy with which the worker utilises the available capital equipment and raw materials.

The reports of the Working Parties published so far have thrown a a good deal of light on (*b*) and (*c*). In industry after industry it has been found that there is a striking absence of up-to-date machinery and of modern buildings. Some of the reports have sought the reasons for this backwardness. Briefly, the main causes are:

1. During the inter-war years Britain's industrialists tended to dissipate the profits they made in good years on high dividends.

2. In bad years they turned for safety to restrictive and monopolistic devices—tariffs and international cartels, price maintenance agreements, quotas, financial amalgamations, etc. By the mid 1930's effective competition had disappeared from large sectors of the British economy.

3. British industry was outstandingly deficient in obtaining trained scientific and managerial man-power. In the United States it was rare to find any reasonably large plant where the executives had not received university training in the techniques they were handling. In Britain it was exceptional to find plants where they had received any such preparation. The report of the Government's Committee on Scientific Manpower presented in May, 1946, declared that "even if the student population in British Universities were doubled, we should still fall short of a number of European countries and certainly of the U.S.A. in the relative provision we have made for higher education". It found that there are probably no more than 55,000 qualified scientists in the whole country; almost half of these are teachers in Universities and schools, and after allowance has been made for these it is doubtful if there are as many as 25,000 scientists in a working population of over twenty million.

4. Throughout the inter-war years unemployment was high;

British labour was cheap and abundant, and under these circumstances there was inevitably managerial indifference towards either machinery or plant layouts which might have saved labour.

5. Finally, there is in British industry a long tradition of trade union and labour opposition to the introduction of labour-saving machinery and to the fullest utilisation of existing machinery. Twenty years of deep unemployment did little to shake that opposition, and twelve months of full employment have made little impact on the experiences of a lifetime.

All these factors have played their part in reducing the efficiency of British industry. Until they have all been dealt with we cannot hope that Britain's export problem has been solved. And the necessary steps call for action on a grand scale. Hundreds of millions of pounds must be spent on the recapitalisation of British industry and the modernisation of its layout. The restrictive trade practices and associations that have been developed by the business community over the past twenty-five years must be abandoned. Our whole system of technical training must be drastically reformed so that the number of technicians in industry can be at least doubled. Management must adjust itself to the fact that labour is scarce and expensive. But only if the ordinary working man and working woman give their maximum efforts will the revolution succeed.

In the final analysis perhaps the most urgent problem confronting the Government is to elicit that maximum from the entire working population. Without it all the projected changes in the organisation of international trade will fail to benefit Britain and the British standard of living.

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